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FILE NO 27290.000013

November 21, 2011

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Cynthia Brown
Chief, Section of Administration
Surface Transportation Board
Office of Proceedings
395 E Street SW
Washington, DC 20423

In re National Rail Passenger Corporation
STB Finance Docket No. 35571

Dear Ms. Brown:

My firm represents National Rail Passenger Corporation (Amtrak) in connection with the above-referenced matter. Enclosed for filing is Amtrak's Petition for Determination of PRIIA Section 209 Cost Methodology, a Memorandum in Support of the Petition, and the Declaration of Maximilian R. Johnson with supporting exhibits. The filing includes an original and 10 copies of all documents, along with three CDs, each containing electronic copies of all documents.

Please stamp one copy of this letter to indicate that all documents have been received and filed, and please return the stamped copy with our messenger for our files. Thank you for your assistance in this matter.

If you have any questions or concerns, please feel free to contact me.

Sincerely,

Neil K. Gilman

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BEFORE THE
SURFACE TRANSPORTATION BOARD

In re National Railroad Passenger Corp.	)	**STB Finance Docket No. 35571**

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AMTRAK'S PETITION FOR DETERMINATION OF PRIIA SECTION 209 COST METHODOLOGY

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National Railroad Passenger Corporation ("Amtrak") hereby files this petition for miscellaneous relief pursuant to 49 C.F.R. § 1117.1, and requests that the Surface Transportation Board ("STB" or "Board") (1) determine that the standardized methodology jointly developed by Amtrak and various States establishing and allocating costs for State-supported Amtrak routes (the "Agreed Methodology") is the appropriate methodology under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 ("PRIIA"), P.L. 110-432, Div. B, Title II, § 209 ("Section 209"), and (2) require the full implementation of the Agreed Methodology pursuant to Section 209(c).[1] Amtrak has filed a Memorandum in Support of its Petition describing in greater detail why the Board should grant the Petition.

A. The Board's Jurisdiction

PRIIA Section 209(a) required that Amtrak, in consultation with certain States (the "Covered States"), "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" certain routes. Section 209(c) of PRIIA states that if Amtrak and the Covered States "do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation . . ., the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this

[1] The Final Version of the PRIIA Section 209 Cost Methodology Policy is attached as Exhibit A to the Declaration of Maximilian R. Johnson ("Johnson Dec."), which is attached to Amtrak's memorandum in support of this petition.

methodology with regards to the provision of such service within 1 year of the Board's determination of the appropriate methodology."

As described in detail in the accompanying memorandum, Amtrak and 15 of the 19 Covered States have voluntarily adopted the Agreed Methodology. Transportation officials in three other Covered States have recommended the Agreed Methodology. One State, Indiana, has refused to voluntarily adopt the Agreed Methodology, but has not provided any reasons for this decision, any criticisms of the Agreed Methodology, or any alternative methodology. Thus, under Section 209(c), there has not been a voluntarily adoption and implementation of the methodology by Amtrak and the Covered States, and the Board is therefore required by statute to determine the appropriate methodology.

B. The Reasons the Petition Should be Granted

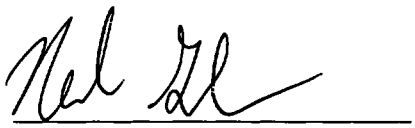
As noted above, the Board is statutorily required to determine the appropriate methodology. For the reasons described in the accompanying memorandum, Amtrak believes that the Board should adopt and implement the methodology already adopted by Amtrak and 15 of the 19 Covered States (with support from transportation officials in three other Covered States). The overwhelming majority of interested parties have already determined that the Agreed Methodology is fair, equitable, and satisfies the statutory criteria. Moreover, no Covered State has provided any alternative methodology.

C. Relief Sought Through the Petition

As noted above, Petitioner requests that the Board, in exercising its statutory authority to determine the appropriate methodology under PRIIA Section 209, conclude that the Agreed Methodology is the appropriate methodology and require the full implementation of that methodology.

November 21, 2011

Respectfully Submitted,



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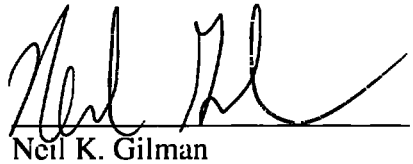
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Counsel for National Railroad
Passenger Corporation (Amtrak)

CERTIFICATE OF SERVICE

Because there are no other "parties" to this proceeding, service is not required pursuant to 49 C.F.R. § 1104.12. Nonetheless, because the 19 Covered States have an interest in this matter, I hereby certify that I have this day caused to be sent by express mail, next day delivery, courtesy copies of Amtrak's Petition for Determination of PRIIA Section 209 Cost Allocation Methodology and Memorandum in Support of Petition to the Governors of the 19 Covered States.



Neil K. Gilman

BEFORE THE
SURFACE TRANSPORTATION BOARD

In re National Railroad Passenger Corp.	)	**STB Finance Docket No. 35571**

DECLARATION OF MAXIMILIAN R. JOHNSON

1. My name is Maximilian R. Johnson and I am competent to make this declaration. The facts stated herein are within my personal knowledge and are true and correct.

2. I am currently the Principal Officer, Corridor Strategy and Analysis for the National Railroad Passenger Corporation ("Amtrak"). I have worked in this capacity first as a contractor and subsequently as a full-time employee since February 2010. Prior to this role, my past experiences include positions at a limousine and bus company, a car-sharing company, and within the Amtrak Finance Department. I have a Masters in Business Administration in Finance and Operations.

I. Introduction

3. In my capacity as Principal Officer, I have participated on behalf of Amtrak in the development of a methodology for establishment and allocation of costs for state-supported routes as mandated by the Passenger Rail Investment and Improvement Act of 2008 ("PRIIA"), P.L. 110-432, Div. B, Title II, § 209 ("Section 209"). Attached as Exhibit A is a true and accurate copy of the document containing the methodology (the "Agreed Methodology") that Amtrak has petitioned the Surface Transportation Board ("STB" or "Board") to (1) find appropriate under Section 209 and (2) implement.

4. Amtrak determined that Section 209 applies to 19 states (the "Covered States"). Amtrak developed the proposed methodology in partnership with the Section 209 State Working Group ("SWG"), which was comprised of representatives of five of the Covered States. The Covered States are California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, and Wisconsin. A list of the state-supported routes covered by Section 209 is Appendix A to Exhibit A. The Agreed Methodology constitutes the final product of the collaborative process involving Amtrak, the Covered States, and the Secretary of Transportation.

5. Fifteen of the 19 Covered States have adopted the Agreed Methodology. Three states – Massachusetts, Pennsylvania and Washington – have offered general support pending final action by their governors. One state, Indiana, has expressly stated it will not adopt the Agreed Methodology.

II. The Collaborative Development of the Proposed methodology

6. Throughout the Section 209 process, Amtrak has engaged in numerous conferences with the Covered States as well as the SWG and regional groups of states in an effort to develop an agreeable methodology for establishment and allocation of costs.

7. Amtrak gave a PowerPoint presentation regarding Section 209 and proposals for the mandated methodology at the annual meeting of the Standing Committee on Rail Transportation ("SCORT") of the American Association of State Highway and Transportation Officials ("AASHTO") in Washington, DC on March 8, 2010, which was attended by representatives of the Covered States. The PowerPoint presentation given by John Bennett of Amtrak was subsequently posted on the AASHTO website and is attached hereto as Exhibit B.

8. Amtrak subsequently held a national meeting in Chicago, Illinois, on April 20-21, 2010. The participants at the national meeting were Amtrak, representatives of 13 of the Covered States, the Federal Railroad Administration ("FRA"), AASHTO, the States for Passenger Rail Coalition ("SPRC"), and the John A. Volpe National Transportation Systems Center ("Volpe Center"). Amtrak outlined the statutory requirements of Section 209. Amtrak's PowerPoint presentation from the meeting is attached hereto as Exhibit C.

9. Amtrak also provided attendees with a review of the Amtrak Performance Tracking ("APT") system. A true and accurate copy of the APT Methodology provided to Congress in 2009 is attached as Exhibit D. The APT system, which was developed pursuant to the Consolidated Appropriations Act of 2005, is used to report route level performance to Congress. At the national meeting, Amtrak proposed to use the APT system as the baseline for developing a methodology for establishing and allocating costs, and it remains the baseline for the methodology contained in the Agreed Methodology.

10. At the national meeting, Amtrak also provided attendees with Amtrak's initial proposal for implementing Section 209. A true and accurate copy of Amtrak's initial Section 209 proposal is attached as Exhibit E. Specifically, Amtrak discussed the draft proposal, including how the proposal established and allocated costs. This initial proposal was intended to be similar to the historic methodology in place at the time with most state partners that support corridor service in their states.

11. In the months following the national meeting, Amtrak held a series of regional meetings to discuss Section 209 issues with various state representatives.

12. On May 10-11, 2010, Amtrak held a New England regional meeting in Portsmouth, New Hampshire. The New England regional meeting was attended by

representatives of Amtrak, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, the FRA, and the New Hampshire Rail Transit Authority. At this meeting, Amtrak reviewed *pro forma* financial results for trains historically supported by Maine and Vermont under the initial proposed methodology.

13. On May 26-27, 2010, Amtrak held a Pacific Northwest regional meeting in Portland, Oregon. The Pacific Northwest regional meeting was attended by representatives of Amtrak, Oregon, Washington, and the FRA. At this meeting, Amtrak reviewed *pro forma* financial results for the *Cascades* route, which was historically partially supported by Oregon and Washington, under the initial proposed methodology.

14. On June 2-3, 2010, Amtrak held a California regional meeting in Sacramento, California. The California regional meeting was attended by representatives of Amtrak and California, including CalTrans and the Capitol Corridor Joint Powers Authority ("CCJPA"). At this meeting, Amtrak reviewed *pro forma* financial results for California state-supported services under the initial proposed methodology. At this meeting, the CCJPA introduced the concept of charging states a fixed percentage of all shared costs instead of including and excluding certain line items.

15. On June 9-10, 2010, Amtrak held a Midwest regional meeting in Chicago, Illinois. The Midwest regional meeting was attended by representatives of Amtrak, Illinois, Michigan, Missouri, Oklahoma, Texas, and Wisconsin, and Amtrak reviewed *pro forma* financial results under the initial proposed methodology for routes in these states affected by Section 209. During a breakout session with Amtrak and Michigan, we discussed the fact that approximately 100 miles of the *Wolverine* route is on Amtrak-owned right of way, which was resulting in the route receiving allocations in APT of Amtrak's actual maintenance of way

expenses for this segment, as opposed to the incremental cost that would be paid to a host railroad through Amtrak's statutory rights of access as granted by the Rail Passenger Service Act of 1970. During this breakout meeting, Amtrak agreed to consider the idea of a "synthetic host railroad charge" in situations where there was Amtrak-owned right of way on Section 209 routes, which would result in lower charges similar to those if the right of way was owned by a host railroad.

16. On June 22, 2010, Amtrak held a Southeast regional meeting in Raleigh, North Carolina. The Southeast regional meeting was attended by representatives of Amtrak, North Carolina, South Carolina, and Virginia. At this meeting, Amtrak reviewed *pro forma* financial results under the initial proposed methodology for routes in these states affected by Section 209.

17. On June 25, 2010, I presented information on Section 209 and Amtrak's proposal to the Midwest Regional Rail Initiative in Chicago, Illinois. My PowerPoint presentation is attached hereto as Exhibit F.

18. On July 12, 2010, Amtrak participated in a meeting with STB representatives Jamie Rennert and Matt Wallen.

19. On July 14, 2010, Amtrak held a Southern regional meeting in New Orleans, Louisiana. The Southern regional meeting was attended by representatives of Amtrak, Georgia, Louisiana, and Mississippi. Although they did not attend, representatives from Alabama and Florida were also invited to the Southern regional meeting. At that time and today, no routes in any of these states would be affected by Section 209.

20. On July 19, 2010, Amtrak held a Pennsylvania regional meeting in Philadelphia, Pennsylvania. This Pennsylvania regional meeting was attended by representatives of Amtrak

and Pennsylvania. At the meeting, Amtrak reviewed *pro forma* financial results under the initial proposed methodology for routes in Pennsylvania affected by Section 209.

21. On July 20, 2010, Amtrak held a New York regional meeting in New York, New York. The New York regional meeting was attended by representatives of Amtrak and New York. At the meeting, Amtrak reviewed *pro forma* financial results under the initial proposed methodology for routes in New York affected by Section 209.

22. On July 28-29, 2010, at the Amtrak Board of Directors meeting, the Amtrak Section 209 team presented the Amtrak Board with the alternative concept, introduced by the CCJPA during the June 2-3, 2010 meeting, of charging a fixed percentage of shared costs, as well as the "synthetic host railroad charge" concept developed during the meeting with Michigan. The Amtrak Board approved these concepts, and Amtrak subsequently presented them to the Covered States as a potential option. While the CCJPA's suggestion was later replaced by the additive proposal from the SWG, the "synthetic host railroad charge" was incorporated into the Agreed Methodology.

23. On August 10, 2010, Amtrak held a Connecticut regional meeting in New Haven, Connecticut. The Connecticut regional meeting was attended by representatives of Amtrak and Connecticut. At the meeting, Amtrak reviewed *pro forma* financial results under the initial proposed methodology for the Springfield Shuttle, which would be affected by Section 209.

24. On August 17, 2010, shortly after the conclusion of the initial regional meetings, Amtrak held a second national meeting for all Covered States in Chicago, Illinois. Amtrak Chairman Tom Carper also attended. At the second national meeting, Amtrak provided a summary of the regional meetings that took place since the first national meeting. Amtrak's PowerPoint presentation is attached hereto as Exhibit G. Amtrak noted that the regional

meetings identified minor APT adjustments for routes, and that Amtrak had already made many of these adjustments. Amtrak also provided a summary of Amtrak's presentation to the Amtrak Board of Directors, including the recommended PRIIA Section 209 policy. Further, Amtrak also reviewed and discussed specific state reactions and concerns to the existing PRIIA Section 209 policy. For example, some states had concerns regarding sharing costs for the maintenance of equipment between corridor and long distance services at some major terminals. Some states also had concerns about refining cost allocations between Amtrak and commuter services. Amtrak's PowerPoint presentation summarizing state concerns is attached hereto as Exhibit H. At this national meeting, Amtrak introduced the potential policy discussed at the prior Amtrak Board meeting of charging Covered States 100% of direct costs and 75% of shared costs.

25. On September 10, 2010, Amtrak provided the Covered States with a first draft of annual capital charges as derived from the APT system.

26. On September 16, 2010, Amtrak met with representatives of North Carolina regarding the development of the Section 209 methodology and how it would affect routes North Carolina had historically supported.

27. On September 19-22, 2010, I, along with other Amtrak representatives, met in Jacksonville, Florida, with representatives of the Covered States, AASHTO, and the SPRC at the annual SCORT meeting. At that meeting, John Bennett of Amtrak gave a presentation on the status of the Section 209 activities, which was subsequently posted on the AASHTO website and is attached hereto as Exhibit I. Shortly after that meeting, representatives of the Covered States, acting under the auspices of AASHTO and the SPRC, established the SWG to represent the interests of the Covered States during the development of the Section 209 methodology for establishment and allocation of costs. Appointed to the SWG were: David Kutrosky, on behalf

of California and the Capitol Corridor Joint Powers Authority; Patricia Quinn, on behalf of Maine and the Northern New England Passenger Rail Authority; Patrick Simmons, on behalf of North Carolina; Kevin Page, on behalf of Virginia; and Beth Nachreiner, on behalf of Wisconsin. Amtrak and the SWG formed working committees to address specific issues, such as cost definitions and contracts.

28. On September 27, 2010, Amtrak held a regional meeting in Richmond, Virginia, regarding the Section 209 methodology and how it would affect routes in Virginia.

29. On October 5, 2010, Amtrak participated in a meeting with staff from Senator Charles Schumer's staff to explain Section 209 and its potential effects on New York.

30. On October 6, 2010, Amtrak participated in a meeting with staff from Senator Patrick Leahy's staff to explain Section 209 and its potential effects on Vermont.

31. On October 13, 2010, Amtrak participated in a meeting with staff from Senator Kirsten Gillibrand's staff to explain Section 209 and its potential effects on New York.

32. On October 18-19, 2010, Amtrak held an internal meeting in Chicago, Illinois, to review and update APT allocations for the Covered Services, based on comments received at regional meetings.

33. On October 27, 2010, Amtrak sent a letter to the Chairs of SPRC and SCORT in response to their previous letters regarding an extension of the October 16, 2011 deadline. Amtrak's letter is attached hereto as Exhibit J. Amtrak proposed a six-month extension to allow the Covered States and Amtrak to continue the work currently in progress to collaboratively determine a methodology for Section 209. This agreement was executed by Frank Busalacchi, the Chair of SCORT, on November 9, 2010. The executed letter is attached hereto as Exhibit K.

34. On October 28, 2010, representatives of Amtrak and the SWG held a meeting in Washington, DC, regarding the development of the Section 209 methodology.

35. On November 8, 2010, Amtrak met with the Northern New England Passenger Rail Authority in Portland, Maine, regarding the development of the Section 209 methodology and how it would affect the *Downeaster*.

36. On November 17, 2010, representatives of Amtrak and Michigan met in Niles, Michigan, regarding the development of the Section 209 methodology and how it would affect routes in Michigan covered by Section 209.

37. On December 1-2, 2010, Amtrak and the SWG participated in a working group meeting in Washington, DC.

38. On December 13, 2010, representatives of Amtrak and California met in Sacramento, California, regarding the development of the Section 209 methodology and how it would affect routes in California.

39. On January 5, 2011, the SWG presented a review of direct and shared costs under the draft methodology as it existed at that time, and proposed several revisions to the methodology. The SWG's presentation is attached hereto as Exhibit L. This presentation addressed the concerns of the SWG regarding shared costs, and proposed a new approach in which most shared costs would be replaced with a "Support Fee" calculated as a percentage of direct operating costs. This was originally known as the multiplier approach, and it eventually evolved into the additive approach found in the proposed methodology.

40. On January 5, 2011, representatives of Amtrak and the SWG briefed the Senate Commerce Committee on the status of discussions. On January 6, 2010, the same group briefed the House Transportation and Infrastructure Committee.

41. On January 12, 2011, representatives of Amtrak and Pennsylvania met in Harrisburg, Pennsylvania, regarding the continuing development of the Section 209 methodology and how it would apply to Pennsylvania's routes.

42. On January 21, 2011, representatives of Amtrak participated in a conference call with representatives of Oregon, and another with representatives of Washington, about how the continuing development of Section 209 would apply to corridor service in the Pacific Northwest.

43. On January 23, 2011, the SWG made a presentation to the SPRC regarding progress in the development of the Section 209 methodology, including the SWG's revisions to the methodology for allocation of shared costs. On January 24, 2011, the SWG participated in a conference call with Covered States to further discuss this progress.

44. On January 31, 2011, representatives of Amtrak participated in a conference call with representatives from Connecticut, Maine, Massachusetts, New York, North Carolina, Pennsylvania, Vermont, and Virginia to discuss the issue of how to share through revenue on trains with both state-supported legs and legs operating on the Northeast Corridor ("NEC").

45. On February 4, 2011, Amtrak sent letters to all states with Amtrak service, informing them whether any routes in their states were covered by Section 209 and outlining the progress of the development of the Section 209 methodology.

46. On February 8, 2011, Amtrak received the first counterproposal from the SWG, referred to as the "additive" approach. The SWG's summary of the additive approach is attached hereto as Exhibit M. Under the additive approach, instead of starting with fully-allocated costs and subtracting certain items, a state's costs would be calculated by determining route-specific costs and adding overhead charges. On February 9, 2011, representatives of Amtrak and the SWG participated in a conference call to discuss this approach.

47. On February 11, 2011, representatives of Amtrak and North Carolina met in Raleigh, North Carolina, regarding the continuing development of the Section 209 methodology, and how it would apply to routes in North Carolina affected by Section 209.

48. On February 17, 2011, representatives of Amtrak and Wisconsin met in Milwaukee, Wisconsin, regarding the development of the Section 209 methodology and how it would apply to Wisconsin's routes.

49. On February 18, 2011, Amtrak responded in writing to the SWG policy proposal of February 8, 2011. Amtrak's response to the SWG is attached hereto as Exhibit N.

50. On February 22, 2011, the SWG participated in a conference call with the FRA to provide an update regarding the development of the Section 209 methodology.

51. On February 22-23, 2011, representatives of Amtrak, Oregon, and Washington met in Washington State regarding the development of the Section 209 methodology and how it would apply to corridor service in the Pacific Northwest.

52. On March 4, 2011, Amtrak and the SWG presented their policy concept to an audience of state transportation department executives at the AASHTO IPR Leadership meeting in Washington, DC.

53. On March 8, 2011, representatives of Amtrak and Vermont met in Montpelier, Vermont, regarding the continuing development of the Section 209 methodology and how it would apply to Vermont's routes.

54. On March 14, 2011, Amtrak met with FRA staff to discuss the development of the Section 209 methodology.

55. On March 14-15, 2011, Amtrak and the SWG provided an update on the development of the Section 209 methodology at the SCORT meeting in Washington, DC.

56. On March 16, 2011, the SWG provided an update on the development of the Section 209 methodology at the New England/New York Compact Meeting.

57. On March 17, 2011, representatives of Amtrak and Connecticut met in New Haven, Connecticut, regarding the continuing development of the Section 209 methodology and how it would apply to Connecticut's routes.

58. On March 17, 2011, Amtrak sent a letter to the Chairs of SCORT and SPRC proposing to extend the deadline for an additional two months to allow the parties to continue to work to finalize the details of the PRIIA Section 209 methodology. Amtrak's letter is attached hereto as Exhibit O.

59. On March 23, 2011, Amtrak provided an update on the progress of the development of the Section 209 methodology at the NEC Corridor Commission meeting in Wilmington, Delaware.

60. On March 30, 2011, I sent a memo to the SWG regarding capital charges and additives, which is attached hereto as Exhibit P. This memo described some of the challenges that Amtrak discovered relating to the depreciation-based capital charge, and introduced the concept of an "investment-based" capital charge, as well as conducting internal due diligence with respect to the additive rates.

61. On March 31, 2011, representatives of Amtrak and Michigan had a conference call to discuss the development of the Section 209 methodology and how it would apply to routes affected by Section 209 in Michigan.

62. On April 13, 2011, the SWG held a briefing conference call with the Midwest Regional Rail Initiative to provide an update regarding progress in the development of the Section 209 methodology.

63. In mid-April 2011, the Amtrak Section 209 team proposed to the SWG minor modifications to the line items to be classified as "Route Costs," adjustments to certain additive rates, and the emerging concept of an investment-based capital charge in response to concerns raised about the depreciation-based charge from the APT system. The SWG agreed to these minor modifications.

64. On April 20, 2011, Amtrak and the SWG participated in a Section 209 conference call with the Midwest Regional Rail Initiative. Representatives from Illinois, Indiana, Michigan, Missouri, and Wisconsin also participated.

65. On May 3, 2011, representatives of Amtrak and SWG jointly presented the framework for the Proposed methodology at the AASHTO IPR Leadership meeting in Washington, DC.

66. On May 11-12, 2011, representatives of Amtrak and the SWG met to develop the final cost-allocation model, and jointly approved the additives approach for calculating Support Fees and allocating shared costs.

67. On May 17, 2011, during a conference call among SPRC members, the SWG briefed representatives of the Covered States regarding the status of the negotiation of the proposed methodology.

68. Between May 23 and June 3, 2011, representatives of Amtrak and the SWG conferred regularly to fine-tune the proposed methodology.

69. On June 8, 2011, the Amtrak Section 209 team briefed the Amtrak Board of Directors on the draft proposed methodology about to be released to the Covered States.

70. On June 10, 2011, Amtrak and the SWG released the draft proposed methodology to the Covered States. A true and accurate copy of the draft proposed methodology is attached

hereto as Exhibit Q. Amtrak and the SWG requested that the Covered states provide comments regarding the proposed methodology by June 24, 2011. Along with the draft proposed methodology, they also provided an issue brief and a questionnaire requesting state-specific information, which are attached hereto as Exhibits R and S.

71. On June 15, 2011, the SWG held a conference call with representatives of the Covered States to discuss the draft proposed methodology.

72. In July 2011, Amtrak and the SWG reviewed feedback from the Covered States regarding the draft proposed methodology. Amtrak and the SWG did not receive any substantive feedback regarding the proposed methodology itself from Indiana.

73. On July 1, 2011, representatives of Amtrak and Pennsylvania participated in a conference call to discuss the draft proposed methodology and how it would apply to routes affected by Section 209 in Pennsylvania.

74. On July 3, 2011, representatives of Amtrak and North Carolina met in Raleigh, North Carolina, to discuss the draft proposed methodology and how it would apply to routes affected by Section 209 in North Carolina.

75. On July 13, 2011, representatives of Amtrak and the Massachusetts Department of Transportation met in Boston, Massachusetts, to discuss the draft proposed methodology and how it would apply to routes affected by Section 209 in Massachusetts.

76. On July 21, 2011, representatives of Amtrak and the Connecticut Department of Transportation met to discuss the draft proposed methodology and how it would apply to routes affected by Section 209 in Connecticut.

77. On August 11, 2011, representatives of the SWG, Vermont, New York, Maine, Massachusetts, Connecticut, Pennsylvania, Virginia and North Carolina participated in a conference call to discuss the NEC Through Revenue section of draft proposed methodology.

78. On August 12, 2011, Amtrak and the SWG provided the Covered States with the Final Draft of the proposed methodology, which included revisions to the Through Revenue section, the Capital Charge section, and the transition schedule based on feedback from those Covered States that had responded to the June 10, 2011 request for comment. A true and accurate copy of the Final Draft of the proposed methodology are attached hereto as Exhibit T.

79. On August 31, 2011, the Amtrak Board of Directors approved the proposed methodology, which is attached as Exhibit A.

80. On September 1, 2011, Amtrak sent letters to each of the Covered States requesting that by September 30, 2011, the state affirmatively concur with the proposed methodology.

81. From September 11-14, 2011, I, along with other representatives Amtrak and many of the Covered States, attended the annual SCORT meeting in Charlotte, North Carolina. On September 11, 2011, I attended the SPRC meeting and answered questions with members of the SWG regarding the proposed methodology. On September 12, 2011, David Kutrosky of the SWG made a presentation regarding the proposed methodology. Mr. Kutrosky's PowerPoint presentation is attached hereto as Exhibit U. While at this meeting, I discussed Section 209 concurrence with representatives from Covered States in attendance.

82. On September 22, 2011, representatives of Amtrak and Massachusetts participated in a conference call to discuss the proposed methodology and how it would apply to routes affected by Section 209 in Massachusetts.

83. On September 27, 2011, representatives of Amtrak and Vermont met in Montpelier, Vermont, to discuss the proposed methodology and how it would apply to routes affected by Section 209 in Vermont.

84. On October 11, 2011, representatives of Amtrak and Pennsylvania participated in a conference call regarding specific questions Pennsylvania had raised regarding the proposed methodology.

85. On October 14, 2011, representatives of Amtrak, Connecticut, and Massachusetts met in New Haven, Connecticut, regarding specific questions Connecticut and Massachusetts had raised with respect to the proposed methodology.

III. The Responses to the Request for Concurrence in the Proposed methodology

86. As stated above, on September 1, 2011, Amtrak requested by letter that each of the Covered States adopt the proposed methodology by September 30, 2011. Amtrak's letters to the Covered States are attached hereto as Exhibits V(1)-(19).

87. The majority of Covered States affirmatively responded. These responses are attached hereto as Exhibits W(1)-(15).

a. Maine adopted on September 13, 2011.

b. Wisconsin adopted on September 14, 2011.

c. North Carolina adopted on September 19, 2011.

d. Texas adopted on September 26, 2011.

e. Oregon adopted on September 26, 2011.

f. New York adopted with comments on September 29, 2011.

g. Virginia adopted on September 29, 2011.

h. Vermont adopted on October 3, 2011.

i. Michigan adopted with comments on October 7, 2011.

j. California adopted on October 10, 2011.

k. Oklahoma adopted on October 21, 2011.

l. New Hampshire adopted with comments on October 26, 2011.

m. Connecticut adopted on November 3, 2011.

n. Illinois adopted with comments on November 17, 2011.

o. Missouri adopted on November 17, 2011.

88. On November 8, 2011, Amtrak sent letters to Illinois, Indiana, Missouri, and Washington, the Covered States that had not yet responded to Amtrak's September 1, 2011 letter, again requesting that they adopt the proposed methodology. The letters are attached hereto as Exhibit X(1)-(4).

89. Three states have indicated general support but await final action by their governors:

a. After further discussion with Massachusetts following the October 14, 2011 meeting, Massachusetts state transportation officials told Amtrak representatives they had no further questions or objections and had forwarded the concurrence letter to the Governor's office for approval.

b. After further discussion with Pennsylvania following the October 11, 2011 conference call, Pennsylvania state transportation officials told Amtrak representatives they had no further questions or objections and had forwarded the concurrence to the Governor's office for approval.

c. After discussions with Washington state in November, Washington state transportation officials told Amtrak representatives that they are preparing

a letter for the Governor with a recommendation to concur with the Section 209 methodology, with concerns about implementation, but that this letter is unlikely to be considered by the Governor until the end of November.

90. On November 17, 2011, Mike Riley, the manager of the Rail Office of the Indiana Department of Transportation, informed Amtrak by email that the Governor of Indiana "ha[d] decided to not sign the request accepting the SWG/Amtrak methodology." A copy of that email is attached as Exhibit Y. Indiana provided no explanation for its decision. Indiana has offered no alternative methodologies that it might find acceptable.

I declare under penalty of perjury that the foregoing is true and correct.

Executed: November 21, 2011

Maximilian R. Johnson

BEFORE THE
SURFACE TRANSPORTATION BOARD

In re National Railroad Passenger Corp.	)	**STB Finance Docket No. 35571**

AMTRAK'S MEMORANDUM IN SUPPORT OF PETITION FOR DETERMINATION OF PRIIA SECTION 209 COST METHODOLOGY

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National Railroad Passenger Corporation ("Amtrak") files this memorandum in support of its petition for miscellaneous relief pursuant to 49 C.F.R. § 1117.1. Amtrak requests that the Surface Transportation Board ("STB" or "Board") (1) determine that the standardized methodology jointly developed by Amtrak and various States establishing and allocating costs for State-supported Amtrak routes (the "Agreed Methodology") is the appropriate methodology under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 ("PRIIA"), P.L. 110-432, Div. B, Title II, § 209 ("Section 209"), and (2) require the full implementation of the Agreed Methodology pursuant to Section 209(c).[1]

I. Introduction

In 2008, Congress directed Amtrak to develop and implement, in consultation with 19 States (the "Covered States"),[2] a new methodology for establishing and allocating costs associated with trains operated on certain passenger rail routes. Amtrak and 18 of the 19 Covered States reached an understanding on a methodology. The governors of 15 of the Covered States have formally adopted the methodology; the rail administrators of three others have recommended the methodology to their governors, before whom the matter awaits final action.[3] The Agreed Methodology is the result of a thoroughly collaborative, transparent, and

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[1] The Agreed Methodology, entitled "PRIIA Section 209 Cost Methodology Policy," dated August 31, 2011, is included as Exhibit A to the Declaration of Maximilian R. Johnson ("Johnson Dec."), which is attached hereto.

[2] The Covered States are: California, Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, Missouri, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington and Wisconsin.

[3] California, Connecticut, Illinois, Maine, Michigan, Missouri, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Texas, Vermont, Virginia, and Wisconsin have formally concurred with the Agreed Methodology. (Johnson Dec. ¶ 87.) State transportation officials in Massachusetts, Pennsylvania and Washington have recommended that their

inclusive process, involving countless hours, comments, and compromises. Most importantly, it satisfies the substantive requirements of Section 209.

However, Section 209(c) requires that voluntary adoption of a methodology by Amtrak and the Covered States be unanimous. A single Covered State, Indiana, has expressly refused to adopt the Agreed Methodology. Indiana has articulated no disagreement with the methodology itself, nor offered any alternatives. Nonetheless, the failure of Indiana to join other Covered States and affirmatively adopt the Agreed Methodology has necessitated this proceeding. As a result of Indiana's position, Section 209(c) requires the Board to "determine the appropriate methodology required under [§ 209(a)] . . . in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49." Because several of the Covered States adopt budgets on a biennial basis, it is important that the final Section 209 methodology be adopted and implemented within a reasonable time, so that the States can determine and plan appropriate funding. Thus, referral of the issue to the Board is now appropriate.

Through its petition, Amtrak requests that the Board determine that the Agreed Methodology satisfies the criteria set out in Section 209(a). Amtrak further requests that the Board order the Agreed Methodology's implementation. The Agreed Methodology comports with the letter and intent of Section 209(a). No affected party has suggested otherwise – or offered an alternative methodology for consideration. The Board would be well within its discretion to determine that the Agreed Methodology is an appropriate methodology and order its implementation. It should therefore do so.

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governors concur with the Agreed Methodology, and final action in those three States is pending. (*Id.* ¶ 89.)

II. Background

A. The Statutory Scheme

In 2008, Congress passed and the President signed Public Law 110-432, a comprehensive bill that addressed several important areas of railroad policy. Division B, known as the Passenger Rail Investment and Improvement Act of 2008, addressed several issues specifically related to Amtrak. Section 209 of PRIIA aimed to rectify the historical problem of disparities in federal and State funding levels for different Amtrak routes that are classified as "State-supported" – in reality, some States contributed some funding for some routes, but other routes lacked any State funding whatsoever.[4] Specifically, Section 209 required Amtrak, in consultation with a variety of federal and State officials, to develop and implement a single standardized cost-allocation methodology for certain State-supported routes:

> (a) IN GENERAL. – Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that –
>
> (1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

[4] The Rail Passenger Services Act of 1970 ("RPSA") (45 U.S.C. § 501, *et seq.*, subsequently recodified at 49 U.S.C. § 241101, *et seq.*) permitted individual States to request that Amtrak provide passenger rail services and authorized Amtrak to be reimbursed by States for these services. It also authorized Amtrak to operate additional short distance corridor routes, some of which Amtrak was required to operate until a 1997 amendment. Section 209 was intended to address the resulting inconsistencies in state funding requirements for corridor routes. As stated in the Senate Report regarding PRIIA as introduced in 2007: "Currently Federal financial participation for corridor routes varies widely. In some cases the Federal Government supports the full subsidy, in other cases the routes are supported exclusively by State funds. The purpose of this provision is to standardize Federal participation across all corridors." 110 S. Rpt. 67 at 25 (2007).

(2) 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 1 route.

P.L. 110-432, Div. B, Title II, § 209(a).

Section 209 does not cover all Amtrak routes. Rather, it requires that the new methodology address operating and capital costs associated with: "(B) rail corridors that have been designated by the Secretary of Transportation as high-speed rail corridors (other than corridors described in subparagraph (A)), but only after regularly scheduled intercity service over a corridor has been established, . . . (D) short-distance corridors, or routes of not more than 750 miles between endpoints, operated by – (i) Amtrak; or (ii) another rail carrier that receives funding under chapter 244," 49 U.S.C. § 24102, and "any intercity rail service or route not included in the national rail passenger transportation system" for which Amtrak "enter[ed] into a contract with a State, a regional or local authority, or another person" to provide such service, 49 U.S.C. § 24702(a).[5] Section 209 covers 27 routes[6] that run through 19 different States.

Congress expressly directed Amtrak to consult with the Covered States to establish costs and develop an allocation methodology that was agreeable to Amtrak and the Covered States. Congress further mandated that in the absence of voluntary adoption and implementation by

[5] Section 209 does not cover routes confined to the Northeast Corridor ("NEC"), which is defined for purposes of Section 209 as the "continuous . . . railroad line between Boston, Massachusetts and Washington, District of Columbia." 49 U.S.C. § 24103(5)(B). Section 209 also does not cover long distance routes greater than 750 miles. 49 U.S.C. § 24102(5)(C). The routes that are covered fall into three categories of short distance routes: (1) single State corridor trains (those routes that begin and end in a single State and do not use the NEC corridor), (2) multi-State corridor trains (those routes that begin in one State, end in another, and do not use the NEC corridor), and (3) base-increment NEC corridor trains (either single- or multi-State trains that include a portion of their routes on the NEC corridor).

[6] A list of the covered routes is included as Appendix A to Exhibit A to the Johnson Declaration.

Amtrak and all Covered States, the Board must step in and determine the appropriate methodology. Specifically, Congress provided:

> (c) REVIEW. – If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year after the Board's determination of the appropriate methodology.

P.L. 110-432, Div. B, Title II, § 209(c). The "procedures and procedural schedule applicable to Section 24904(c)," referenced in Section 209(c), mandate that compensation for transportation over certain rights of way and facilities be determined by the Board "not later than 120 days after the dispute is submitted."

Thus, in the absence of voluntary adoption and implementation of a standardized methodology by Amtrak and all Covered States, the Board has the non-discretionary obligation to determine the appropriate methodology and order its implementation.

B. Amtrak and the Covered States Cooperatively Developed the Agreed Methodology

Section 209 has worked largely as intended. As described below and at greater length in the accompanying Johnson Declaration, Amtrak spent significant time working with the Covered States to develop what ultimately became the Agreed Methodology, and the vast majority of the Covered States concluded that the Agreed Methodology satisfies the requirements of Section 209(a) and should be implemented. Unfortunately, Amtrak, 18 of the 19 Covered States, and the Board now find themselves in the odd position of having to move forward under Section 209(c) not because discussions with the Covered States have ended in intractable, substantive disagreements, but rather because a single State has indicated that it will not voluntarily adopt

the Agreed Methodology, despite providing no reasons for this decision or any alternative methodology for consideration.

After enactment of Section 209, Amtrak began to work with the Covered States to develop, adopt and implement the methodology required by Section 209(a).[7] In April 2010, Amtrak and the Covered States gathered for a two-day "national meeting" regarding Section 209. (Johnson Dec. ¶ 8.) At that meeting, Amtrak presented an initial proposal and explained the system it had recently developed, the Amtrak Performance Tracking system ("APT"). (*Id.* ¶¶ 9-10.)[8] Throughout the summer of 2010, Amtrak held meetings with individual Covered States and with regional groups of Covered States to discuss the APT methodology and review *pro forma* financial results from APT for the initial proposal. (*Id.* ¶¶ 11-23.) As explained below, APT alone could be, with minor modifications to allow for *pro rata* allocations on multi-state routes, an appropriate methodology under Section 209. But as also discussed further below, some of the Covered States expressed concerns about discrete aspects of the APT system as a Section 209 methodology. (*Id.* ¶ 24.) As a result, Amtrak agreed to use APT as a baseline for a fully collaborative approach with the Covered States and as a resource for the development of the Agreed Methodology, rather than as the methodology itself.

The interested parties quickly formalized the cooperative approach. On September 19, 2010, the Covered States formed a State Working Group ("SWG") to serve as their representative in discussions regarding the Section 209 methodology. (*Id.* ¶ 27.) The five members, supported by staff from the American Association of State Transportation and

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[7] The facts outlined below are taken from the Johnson Declaration, which sets forth in greater detail the record, which includes meetings, calls, correspondence, and work product related to the development of the Agreed Methodology.

[8] A description of APT is included at pages 11-12, *infra*.

Highway Officials, represented a cross-section of the Covered States and respective regions: one each from California (representing the Capitol Corridor Joint Powers Authority), Maine (representing the Northern New England Passenger Rail Authority), North Carolina, Virginia, and Wisconsin. (*Id.*) The formation of the SWG proved to be an auspicious development in the Section 209 process because it permitted a greater level of collaboration between Amtrak and the Covered States.

At the same time, Amtrak and the Covered States recognized that the decision to pursue a collaborative approach to the development of a methodology would necessarily require significant deliberations. Accordingly, they agreed to extend the October 16, 2010 deadline for finalizing a methodology. (*Id.* ¶ 33.) The open discussions with the Covered States continued unabated, and Amtrak and the SWG formed working committees to address specific aspects of the methodology they were developing, such as cost definitions and contracts. (*Id.* ¶ 27.)

Simultaneously, the SWG began a series of briefings – which continued on a regular basis throughout the remainder of the process – to ensure that all Covered States (and various regional groups of the Covered States) were kept abreast of ongoing developments. In January 2011, Amtrak and SWG representatives briefed congressional staff on the status of discussions. (*Id.* ¶ 40.) On February 4, 2011, Amtrak sent a letter to State representatives outlining the progress of the development of the Section 209 methodology. (*Id.* ¶ 45.) In March 2011, Amtrak and the SWG briefed the Federal Railroad Administration ("FRA").[9] (*Id.* ¶ 54.)

The SWG offered innovative approaches to aspects of the cost allocation scheme, which Amtrak was receptive to, and which were ultimately incorporated into the methodology. (*Id.*

[9] FRA staff members periodically participated in Section 209 meetings throughout the process.

¶¶ 46, 63.) By April 2011, Amtrak and the SWG were refining the proposal, and on May 11 and 12, they met to develop a final cost allocation methodology. (*Id.* ¶ 66.)

After conferring over the next month and fine-tuning the proposal, on June 10, 2011, Amtrak and the SWG jointly released a draft methodology to the Covered States. (*Id.* ¶ 70.) They held a conference call with the Covered States to discuss the proposal, solicited and evaluated comments from all Covered States, and ultimately revised the draft methodology in significant respects as a result of those comments. (*Id.* ¶¶ 71-77.) By August, both Amtrak and the SWG considered the methodology to be in final form, and began the process of soliciting voluntary adoption. (*Id.* ¶¶ 78-80.)

C. The Covered States' Responses to Amtrak's Request Under Section 209 for Voluntary Adoption and Implementation

On August 31, 2011, Amtrak and the SWG produced the Agreed Methodology – embodied in the "Final Version of the PRIIA Section 209 Cost Methodology Policy" attached as Exhibit A to the Johnson Declaration – which the Amtrak Board of Directors formally approved. (*Id.* ¶ 79.) Amtrak then sought formal adoption of the Agreed Methodology from each Covered State. Section 209 does not prescribe a particular procedure to be used by Amtrak and the States for formal adoption of the Agreed Methodology. Amtrak therefore established an "opt-in" procedure whereby each State would formally assent in writing to the voluntary adoption of the Agreed Methodology. (*Id.* ¶¶ 80, 86.) Thus, on September 1, 2011, Amtrak sent letters to the Covered States transmitting a copy of the Agreed Methodology and summarizing the framework for the Agreed Methodology, explaining the principles underlying the Agreed Methodology, and requesting voluntary adoption of the Agreed Methodology. As the letters stated, "concurrence . . . indicate[s] [the State's] acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will

govern Amtrak's pricing for such services beginning on October 1, 2013." (*Id.* ¶ 86.) The letters requested that the Covered States respond by September 30, 2011. (*Id.*)

To date 15 of the 19 States have voluntarily adopted the Agreed Methodology. California, Connecticut, Illinois, Maine, Missouri, North Carolina, Oklahoma, Oregon, Texas, Vermont, Virginia and Wisconsin all adopted the Agreed Methodology by signing the Amtrak letter without comment. (*Id.* ¶ 87.) Michigan, New Hampshire, and New York adopted the Agreed Methodology with comments or conditions unrelated to the substance or implementation of the Agreed Methodology. (*Id.*) Massachusetts, Pennsylvania and Washington transportation officials have recommended the Agreed Methodology to their respective governors. (*Id.* ¶ 89.)

On November 17, 2011, Indiana notified Amtrak that it would not voluntarily adopt the Agreed Methodology. (*Id.* ¶ 90.) It offered no reason for its decision, nor did it offer any alternative approach for meeting the requirements of Section 209. Indiana's express rejection of the Agreed Methodology obviated any benefit to waiting for formal concurrence from Massachusetts, Pennsylvania and Washington before bringing the matter before the Board.[10] Amtrak's immediate filing of its petition is particularly justified in light of budget-cycle time constraints in several of the Covered States.

III. The Agreed Methodology Satisfies The Requirements of Section 209(a)

The Board has a non-discretionary obligation under Section 209(c) to determine the appropriate methodology required by Section 209(a), and to implement that methodology. A determination by the Board that the Agreed Methodology satisfies the requirements of Section

[10] Notably, of the approximately 31 million passengers who between May 2010 and May 2011 rode on routes covered by Section 209, less than one percent were traveling in Indiana.

209(a) and the Board's implementation of the Agreed Methodology would be reasonable, and would satisfy the Board's statutory duty.[11]

Section 209 requires that any methodology for the allocation of costs on the State-supported routes satisfy two requirements. First, the methodology must "ensure equal treatment in the provision of like services of all States and groups of States." P.L. 110-432, Div. B, Title II, § 209. Second, the methodology must "allocate[] 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 1 route." *Id.*

The selected methodology must address both operating costs and capital costs. Generally speaking, operating costs are those costs that are incurred and whose benefits are realized within the same accounting period, typically one year. Examples of operating costs include fuel purchases and wages – fuel is purchased and used, and employees work and are paid, within a single time period. Capital costs, on the other hand, generally are those costs incurred for assets that are acquired in one period but are used for an extended time – for instance, a rail car purchased in one year and used for 30 years.

The Agreed Methodology meets the requirements of Section 209. It ensures equal treatment of all Covered States in the provision of like services. Further, it allocates to each route the operating and capital costs incurred only for the benefit of that route, and allocates to

[11] The proper interpretation of Section 209 is a matter of first impression. Because the Board is charged with implementing Section 209, the Board's interpretation of Section 209 will be entitled to *Chevron* deference. *See Bhd. of R.R. Signalmen v. Surface Transp. Bd.*, 638 F.3d 807, 811 (D.C. Cir. 2011) (citing *Detroit/Wayne County Port Auth. v. ICC*, 59 F.3d 1314, 1315 (D.C. Cir. 1995) (citing *Chevron USA Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984))). Thus, the courts will "defer to any 'permissible interpretation of the statute' offered by" the Board. *HolRail, LLC v. Surface Transp. Bd.*, 515 F.3d 1313, 1316 (D.C. Cir. 2008) (quoting *Chevron*, 467 U.S. at 843). *See also, e.g., W. Coal Traffic League v. Surface Transp. Bd.*, 216 F.3d 1168, 1173 (D.C. Cir. 2000) (deferring to the Board's "reasonable" interpretation of statute addressing matters under Board's purview).

each route a proportionate share of both operating and capital costs incurred for the benefit of more than one route. Moreover, the Agreed Methodology has garnered the approval of Amtrak and the vast majority of the Covered States. It represents the hard work of those stakeholders who were willing to engage in the statutorily-required consultative process.

A. The Amtrak Performance Tracking System

In 2005, the Consolidated Appropriations Act, P.L. 108-447, directed the Secretary of Transportation to develop a methodology to determine the cost of each Amtrak route, both in avoidable terms (*i.e.*, how much Amtrak could save were the route cut) and fully allocated terms (*i.e.*, including all system-wide costs). Among other things, the new system was intended to simplify the calculation of costs associated with any particular route.

The FRA, on behalf of the Secretary of Transportation, engaged the Volpe National Transportation Systems Center to assist in the development of the APT system.[12] APT's first innovation was to group all cost centers into mutually exclusive "families" and in some cases "subfamilies." The families included:

- Maintenance of Way ("MoW")
- Maintenance of Equipment ("MoE")
- Operations – Transportation (*e.g.*, fuel, train and engine labor, yard operations)
- Sales & Marketing
- Stations
- General & Administrative
- Capital
- Utilities
- Police, Environmental & Safety

[12] The FRA's report to Congress explaining the APT system is attached as Exhibit D to the Johnson Declaration.

In all, APT tracks about 1,600 cost centers. This level of granularity allows for a more detailed route-level assessment of costs than previously possible. More importantly, the system allows all cost centers performing similar activities to be treated in a like manner. For instance, under APT the cost associated with a train and engine crew on a route in Indiana would be accounted for in the same manner as the cost associated with a crew on a route in Virginia.

In APT, direct costs and those costs most closely linked to train operations are often coded directly to specific trains. Costs that are less directly linked to particular routes are allocated to trains on a *pro rata* basis, based on relevant statistics related to those costs. This approach is used to allocate not only operating costs, but also capital costs.

B. The Negotiation of the Agreed Methodology

Because APT permits the full allocation of both operating and capital costs for the State-supported routes, APT could, with only minor modifications (the *pro rata* division of costs on multi-state corridor and base-increment NEC corridor routes), be an "appropriate methodology" under Section 209(a), because it "ensures . . . equal treatment in the provision of like services of all States," and "allocates to each route the costs incurred only for the benefit of that route and a proportionate share . . . of costs incurred for the common benefit of more than 1 route." But Amtrak recognized that an additional intention of Section 209 was to offer Amtrak and the Covered States an opportunity to develop a consensus approach. So while Amtrak could have, as early as last year, simply petitioned the Board to implement the APT system as the Section 209 methodology, it instead continued to work with the Covered States (largely through the SWG) to address their questions regarding APT and develop a methodology that would be satisfactory to them.

Under the Agreed Methodology, operating costs are calculated for each route as follows:

> Third-Party Costs + Route Costs (costs closely associated with a route) + Support Fees (additives for certain route costs to account for system-wide charges that must be allocated on a route level) - Allocated Revenue (such as passenger fares) = Net State Costs.[13]

Capital costs include equipment, Amtrak-owned fixed assets (such as rights of way and joint stations), and other investments in non-Amtrak assets (for which Amtrak pays a *pro rata* share to the owner depending on use). The key elements of the Agreed Methodology are discussed more fully below.

1. The Agreement Regarding the Definition and Full Allocation of Route Costs

Under the APT system, costs directly attributable to a route are fully allocated to that route. There was general agreement between Amtrak and the SWG that direct costs should continue to be allocated fully to specific routes using the APT system, and that certain shared costs are sufficiently route-specific to be classified, along with direct costs, as Route Costs.[14] The Route Costs include:

- Train and engine ("T&E") crew labor
- Car and locomotive maintenance and turnaround service
- On board service labor and provisions (*i.e.*, food service)
- Route-specific advertising
- Sales and distribution
- Reservations and call centers
- Route stations
- Shared stations
- Commissions

[13] Attached as Appendix E to Exhibit A of the Johnson Declaration is a chart showing a breakdown of both operating and capital costs as allocated under the Agreed Methodology.

[14] Likewise, the actively participating stakeholders agreed that passenger-related and other revenue should be credited to individual routes. Revenue allocation is an important part of the Agreed Methodology because it offsets the allocated costs.

- Customer concession
- Connecting motor coach
- Local and regional police
- Block and tower operations
- Terminal maintenance of way
- Insurance

Under the Agreed Methodology, all of these costs remain fully allocated to the specific routes with which they are associated.

2. The Development of Additives to Allocate Support Fees

While there was immediate consensus that the allocation of Route Costs should be carried over from APT into the new methodology, the SWG was concerned about APT's application to certain costs, such as administration and marketing. For example, under APT certain costs relating to maintenance of equipment – for instance, a large hoist at Amtrak's backshops in Beech Grove, Indiana – are allocated on a *pro rata* basis to routes across the country. While the SWG agreed that these sorts of costs should be appropriately allocated across routes, it was averse to a methodology that included line-item minutiae of that sort. The SWG therefore suggested using "Additives" to allocate what it termed "Support Fees" – that is, costs that were not directly associated with any particular route, but instead benefited several different routes. (Johnson Dec. ¶ 46.)

Under the SWG proposal, these Additives would be used to calculate the appropriate allocation of Support Fees to specific routes. The SWG's proposal called for the Support Fees to be calculated as a percentage of the Route Costs. The proposal called for six categories of Support Fees:

- The Support Fee for T&E crew support would be a percentage of the T&E crew labor Route Costs;

- The Support Fee for maintenance of equipment would be a percentage of the car and locomotive maintenance and turnaround service Route Cost;
- The Support Fee for on-board services would be a percentage of the crew and provisions Route Costs;
- The Support Fee for marketing would be a percentage of total revenue;
- The Support Fee for system-wide policing (beyond the Route Costs for local and regional police) would be a function of passenger miles; and
- The Support Fee for general and administrative costs would be a percentage of total Route Costs.

Amtrak was receptive to the SWG's proposal, notwithstanding that it represented a departure from the way Amtrak had historically viewed and charged for State-supported services. From the perspective of the Covered States, it would be more reasonable to include a budget for these sorts of Support Fees, rather than, for instance, a line item for a *pro rata* share of the cost of a hoist in Indiana.

Amtrak and the SWG worked together to determine levels of Support Fees that would meet Section 209(a)(1)'s requirement that the methodology "ensure[] . . . equal treatment in the provision of like services of all States and groups of States." For some Support Fees, this required that the applicable rates vary by region in order to account for differences in the costs of applicable services in the various regions. Amtrak and the SWG determined these rates based on analysis of APT data regarding shared costs: support cost data from APT was converted into rates consistent across all trains on State-supported routes, or across all trains within a region (in order to account for the regional variations affecting some categories of costs). The proposed initial T&E crew Support Fees include a base of 12.90% for all regions, and then an additional, variable rate ranging from 13.50% for the Central Division to 24.30% for New York.[15] This

[15] The variable rates for other divisions are: Mid-Atlantic, 18.40%; Mid-Atlantic/Southern, 20.20%, New England, 16.50%, Pacific, 19.50%, Southern, 20.60%, and Southwest, 16.30%. Appendix E to Exhibit A of the Johnson Declaration contains a complete list of proposed initial Additive rates.

ensures equal *treatment* for like services because it recognizes higher costs where they are actually incurred.

Similarly, the actively participating stakeholders agreed to a marketing additive of 2.80% for base-increment NEC corridor routes and routes with one terminal in Chicago, and 1.90% for all other routes. With this approach, Amtrak and the SWG recognized that costs are not uniform across all Covered States. Thus, they were able to satisfy Section 209's dual requirements of equal treatment of States and appropriate allocation of costs.[16]

3. The Development of a Maintenance of Way Allocation

Amtrak also worked with the SWG to develop a maintenance-of-way allocation. (Johnson Dec. ¶¶ 15, 22.) Many of the rights of way used by the routes covered by Section 209 are owned by freight railroads and are accessed by Amtrak at incremental cost under the RPSA, but some rights of way covered by Section 209 are owned by Amtrak. If Amtrak were to charge the APT allocations for Amtrak-owned rights of way, this could result in dramatically different costs per track mile depending on right of way ownership. That was the situation facing, for instance, the Wolverine route, which contains approximately 100 miles of Amtrak-owned right of way. States supporting routes affected by this issue faced steep cost increases.

The Agreed Methodology reduces the discrepancies caused by these anomalies by removing the APT maintenance of way charges for Amtrak-owned rights of way and replacing

[16] While these are the current rates proposed under the Agreed Methodology, it is, of course, possible that changes may be necessary after the Agreed Methodology is in effect. Indeed, Congress recognized this very possibility in Section 209(b), which says that Amtrak, after consulting with the Covered States, "may revise or amend the methodology established under subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to Section 203(b) of this division." Thus, if Amtrak determines that changes are necessary with regard to the rates or any other aspect of the Agreed Methodology after the Board determines and implements the Agreed Methodology, Amtrak will consult with the Covered States and revise or amend the Agreed Methodology as necessary.

them with a "synthetic host railroad charge," which is consistent with the costs typically charged to Amtrak by host railroads for incremental operating and maintenance expenses. While this approach does not capture all of the relevant maintenance-of-way costs, it takes some of the sting out of the transition to a new cost allocation methodology, ensures that State payments are similar irrespective of right of way ownership, and was instrumental in developing a consensus.

As with maintenance of way costs, some other costs – specifically, the Additives associated with the marketing and general and administrative costs – were negotiated with the States, resulting in allocations that differ from APT. As a result, under the Agreed Methodology, the Covered States will ultimately pay less than 100% of the full costs.[17] This was satisfactory to all participants and, as they determined, satisfies the requirements of Section 209 by allocating costs in a manner that is fair and equitable to each State and each route.

4. The Allocation of Capital Costs

APT was designed as a system for reporting fully allocated costs for Congressional reporting and managerial purposes. It is well-designed for those purposes, and in many respects lends itself well to use in the Section 209 cost-allocation context. However, the SWG concluded that some of the more accounting-focused aspects of APT – in particular, its use of a concept similar to depreciation for determining capital costs – might not translate to use for Section 209 cost-allocation. While depreciation allows for the costs of an asset to be spread across several years, it is disconnected from the actual cash expended at the time the asset is acquired. According to the SWG, an allocation based on a non-cash measure like depreciation would not be a good fit for the Covered States' budgeting and procurement processes. As a result, Amtrak

[17] The less than 100% of total costs results from the synthetic host railroad charge and certain additives. Third-party and direct route costs are 100% allocated.

and the SWG set out to develop a more appropriate methodology for allocation of capital costs. (Johnson Dec. ¶ 60, 78.)

Amtrak and the SWG agreed to use investment-based capital charges based on actual capital spending, allocated to each route and assessed to each State during the term of its contract. The capital charges are used for three types of assets: equipment, Amtrak-owned fixed assets, and other investments in third-party assets. The Agreed Methodology calls for Amtrak to assess a charge for existing and new equipment (typically rolling stock) on a *pro rata* basis, based on the number of units used on a route over the year. Annual capital charges for Amtrak-owned fixed assets, such as stations and rights of way, must be assessed on an individualized basis, given the unique nature of each asset. And capital charges for other investments, such as those in assets owned by other railroads, are to be allocated on a *pro rata* basis based on actual usage. This methodology allows Amtrak to renew the necessary assets associated with Section 209 routes, while offering the Covered States an approach that meshes well with their legislative budgeting and funding processes.

C. The Agreed Methodology Meets the Statutory Criteria

As demonstrated above, the Agreed Methodology meets the requirements of Section 209(a). Operating costs directly attributable to or closely associated with a specific route are fully allocated to that route. (*See* Johnson Dec., Exh. A at 5.) Operating costs that benefit multiple routes are allocated using support fees, which allocate costs on a *pro rata* basis while taking into account, where appropriate, regional cost differentials. (*Id.* at 5-7 & Appx. E.) Likewise, capital costs are allocated on a *pro rata* basis. (*Id.* at 8-9.) Costs associated with trains whose routes include both the NEC corridor and a State-supported corridor are allocated between Amtrak and the relevant States on a *pro rata* basis. (*Id.* at 4.) Finally, where a route crosses more than one State, costs associated with that route are allocated among the affected

States on a basis to be determined by the affected States themselves. (*Id.* at 3-4.) Accordingly, the Agreed Methodology ensures equal treatment among the Covered States, and it allocates all required costs.

1. Equal Treatment

Under the Agreed Methodology, each State is on equal footing. Any cost directly attributable to or closely associated with a route is fully allocated to that route. In the event a route covers more than one State, or both the NEC corridor and a route in the State, the State is allocated only the costs associated with the non-NEC portion of the route within that State. In short, costs incurred in a State are allocated to that State. No other conceivable plan could more fully ensure equal treatment of the provision of like services with respect to these costs.

Likewise, the Agreed Methodology's approach to the allocation of costs attributable to more than one route best satisfies the requirement of Section 209(a)(1). The use of Additives and Support Fees ensures an equitable allocation of those costs that cannot easily be attributed to any single route, in a transparent and simplified manner. Moreover, the use of variable additives allows the Agreed Methodology to account for regional differences in costs where appropriate. This nuanced approach reflects the reality that a one-size-fits-all algorithm for shared costs would not, in fact, result in truly equal treatment in the provision of like services. Further, the specific values used for the Additives are the product of extensive empirical analysis undertaken by Amtrak and reviewed by the SWG. Indeed, perhaps the strongest evidence that the Agreed Methodology provides for equal treatment is the fact that it was the SWG itself that proposed the Additive approach.

Finally, the Agreed Methodology's approach to allocation of capital costs treats each State in a like manner. Notably, each category of capital costs – rolling stock, fixed assets, and

investments in third-party assets – utilizes the most appropriate variable as the basis for the calculation of *pro rata* shares for that particular category, in order to ensure equitable allocation. That equitable allocation results in equal treatment of Covered States, and clearly satisfies the requirements of the statute.

2. Allocation to Each Route of Costs Incurred for That Route's Benefit

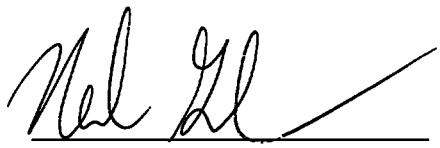
For largely the same reasons the Agreed Methodology satisfies the requirements of Section 209(a)(1), it also satisfies Section 209(a)(2). It fully allocates the costs directly associated with routes. Further, it uses appropriate factors, including passenger miles and train miles, that "reasonably reflect" the benefit each route enjoys from both operating and capital costs incurred for the benefit of more than one route. This blended approach to cost allocation has met with the approval of both Amtrak and the vast majority of the Covered States.

IV. Conclusion

For the reasons Stated above, the Agreed Methodology satisfies the Section 209(a) statutory criteria, and the Board's determination that the Agreed Methodology is the appropriate methodology under Section 209(a) would be reasonable, as would the Board's requiring the implementation of the Agreed Methodology. Amtrak thus respectfully requests that the Surface Transportation Board grant its petition, determine that the methodology set out in the August 31, 2011 PRIIA Section 209 Cost Methodology Policy satisfies the requirements of Section 209(a), and require the full implementation of the Agreed Methodology.

November 21, 2011

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Exhibit A

PRIIA Section 209
Cost Methodology Policy
August 31, 2011
Final Version

Prepared for PRIIA 209 States and Other Interested States by
The States Working Group (SWG) and Amtrak:

Declaration of Maximilian R. Johnson - Exhibit A

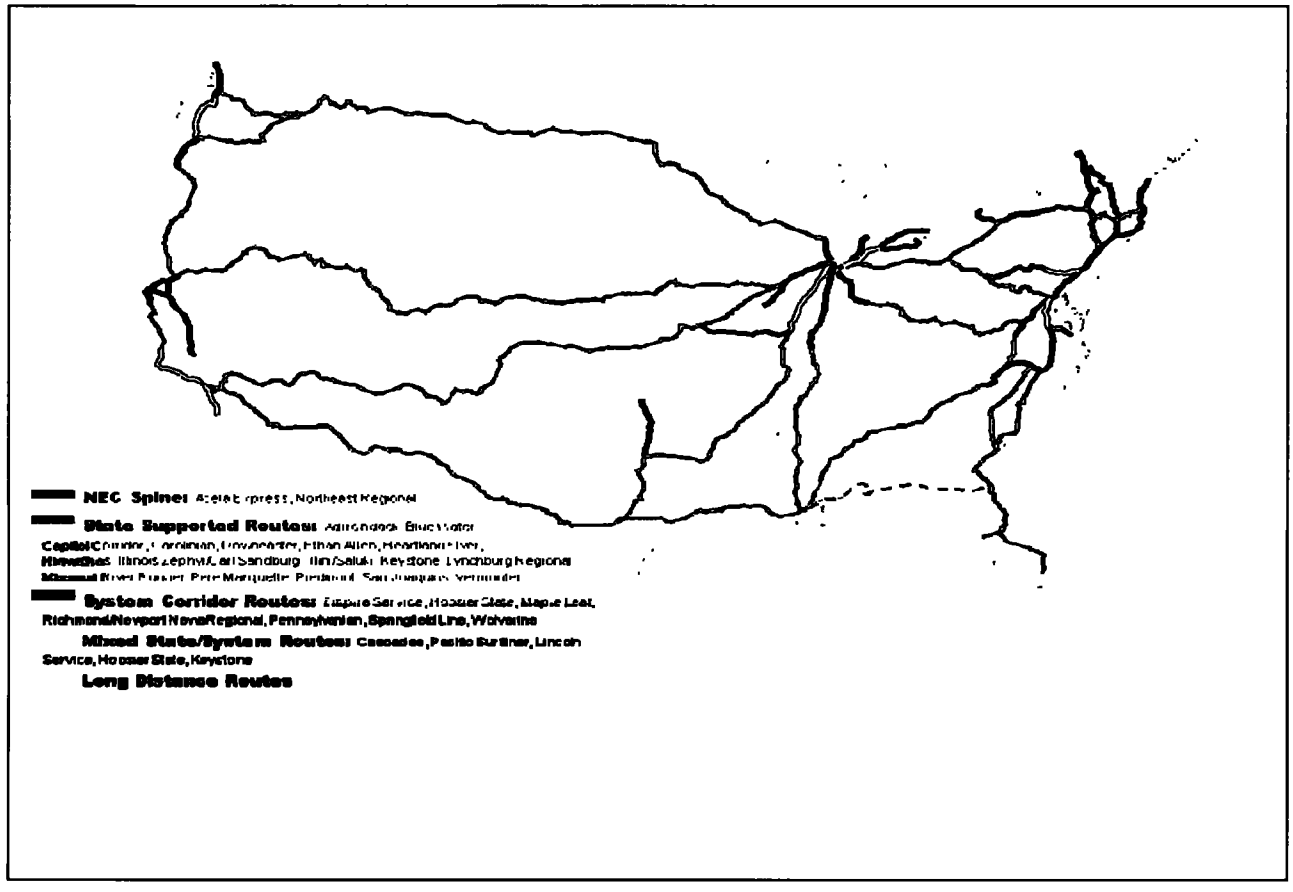
Passenger Rail Investment and Improvement Act (PRIIA) of 2008
Section 209 Cost Methodology Policy

Recommended by the State Working Group (SWG) and Amtrak Staff[1]

FINAL VERSION 8/31/11

Overview

Under the provisions of PRIIA Section 209, all short-distance Amtrak corridor services must become state-supported routes and states must pay the proportional costs associated with their respective corridor route. This document describes the "single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak." 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).



[1] Members of SWG-Amtrak group include John Bennett Stephen Gardner, Shayne Gill, Susan Howard Max Johnson, David Kutrosky, Beth Nachreiner, Kevin Page, Patricia Quinn and Patrick Simmons

Appendix A provides a list of affected routes; ***Appendix B*** provides the text of Section 209 and related statutes. Currently, approximately 36 of the total 110 corridor routes are either partially or completely supported by Amtrak. Once Section 209 is implemented, all such corridors routes will be priced in a transparent, fair and equitable manner. Amtrak and states were charged with collaboratively creating a cost methodology to establish a basis for sharing operating costs plus an annual capital charge for Amtrak-owned equipment and facilities used for intercity passenger rail service.

This policy statement outlines the methodology Amtrak will use to compute:

- operating expenses for routes using a formulation that defines direct route costs and associated additives, and
- capital charges for the use of Amtrak-owned assets.

The Amtrak Performance Tracking (APT) system – Amtrak's recently-implemented cost accounting system, that is linked to Amtrak's financial and operating systems -- provides the cost basis that the SWG and Amtrak used to evaluate options for assigning service area route costs.

The Federal Railroad Administration (FRA) met with the SWG and Amtrak to address the issue of transition assistance to the states during the phase in of the new methodologies for route and capital costs. This policy outlines clearly that states are responsible for the costs associated with the new capital charge. However, the FRA recognizes that states will face a financial burden as they implement the new cost-sharing approach. While the details of transition assistance have not been fully developed, the FRA has committed to working with the states and Amtrak on transition assistance.

Basis for Allocating Costs

Many railroad costs—both costs directly related to the services provided and those shared among services—are by their nature provided through jointly used crews, crew bases (locations where train crews report for work), support teams/facilities, maintenance facilities, and stations. As such, cost allocation methods and procedures are needed to fairly apportion these costs. The Amtrak Performance Tracking (APT) system will provide the basis for allocating "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".

In some cases, Amtrak and states may agree 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.

Operating Scenarios

State-supported routes are classified into three operating scenarios:

Single State Corridor Trains. These corridor trains do not cross state lines and do not use the NEC "spine" (Boston-Washington).

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.

Base-Increment NEC Corridor Trains (Single- and Multi-State). In Section 209, the Northeast Corridor (NEC) is defined as "the continuous Northeast Corridor railroad line between Boston, Massachusetts and Washington, District of Columbia" in section 24102(5)(B). Trains having some part of their route both on the NEC and on a state-supported corridor are considered Base-Increment trains. In the case of base-increment NEC corridor trains, APT allocates costs between the state leg and the NEC leg for accounting purposes in various ways. The allocation explanations for specific expenses are described in the APT documentation available on the FRA website, both in summary in the Main report and in detail in Appendix A.

The following general conditions apply to Base-Increment trains:

- Route Costs (defined below) common to both legs are prorated based on whether costs are incurred on the state leg or on the NEC. For instance, turnaround servicing is allocated by train miles on the NEC and state leg. Non-turnaround maintenance is allocated by both time and mileage-based statistics prorated for the amount of time a train spends on either the NEC or the state leg.
- 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" is revenue from trips with one endpoint on the NEC and one endpoint on the state-supported leg. Through revenue will be credited to the state in one of two ways, to be determined by the state and established in the agreement:
    - Passenger Mile Split. Through revenue will be split between the state and Amtrak proportionate to miles traveled off and on the NEC. Under this method, Amtrak is responsible for all operating and capital costs when the train is on the NEC leg. Capital charges for equipment will be split between the state and Amtrak reflecting service both on and off the NEC, allocated based on the time-based Units Used statistic. Capital charges for fixed assets will be for the state leg only.
    - Through Revenue Plus Passenger Mile Charge. States will continue to be charged costs for the state leg as described above. Through revenue will be credited to the state, along with a charge per passenger mile for the costs of through riders traveling on the NEC. This per passenger mile charge will represent the state's share of Amtrak's:
        - Fully allocated NEC operating costs, as pro rated by all available Amtrak Northeast Regional seat miles;
        - Equipment capital overhaul costs, as pro rated by all available Amtrak Northeast Regional seat miles
        - Fully allocated fixed asset Normalized Replacement capital costs as defined in ***Appendix C***, pro rated by all available Amtrak NEC seat miles; and
        - 20% of any fixed asset State of Good Repair Backlog capital costs as defined in ***Appendix C***, pro rated by all available Amtrak NEC seat miles.

      These charges will be fixed for the term of the contract between the state and Amtrak and applied against actual passenger miles. However, this through revenue policy may be amended by Amtrak and the affected states if the outcome of the PRIIA Section 212 cost allocation process requires changes to this policy.

In addition to the operating scenarios described above, some state-supported routes travel for part or all of the entire route on right-of-way owned by Amtrak outside the NEC; these routes are described in ***Appendix D***. In these situations, Amtrak will remove the maintenance of way expenses for these segments as allocated in APT, and replace them with a synthetic host railroad charge. This charge is consistent with the costs that are typically charged to Amtrak by host railroads for incremental operating and maintenance. For right of way that Amtrak purchases or assumes maintenance responsibility for not listed in ***Appendix D***, Amtrak and the state will negotiate such maintenance and related charges on a case-by-case basis.

Methodology for Determining Operating Costs

Under the proposed S209 Methodology, the Service Fee will include:

- 100 percent of the "Third Party Costs" associated with its corridor service;
- 100 percent of the verifiable Route Costs associated with its corridor service;
- Support Fees proportional to its corridor service; and,
- Credit for passenger and other allocated revenue, resulting in the Net State Cost.

Third Party Costs:

Actual Third Party Costs will be charged to the state corridors. Third Party Costs are comprised of:

- Host railroad maintenance of way;
- Host railroad performance payments; and
- Fuel and power charges.

Route Costs:

Route Costs are operating costs closely associated with the operation of a route. Route Costs can clearly be evaluated and tracked by Amtrak and the states in the direct provision of service on a corridor train. Route operating costs include the following categories as allocated by the APT system:

- Train and engine crew labor
- Car and locomotive maintenance and turnaround service
- On Board Service Labor and provisions (Food Service)
- Route Advertising,
- Sales & Distribution
- Reservations and Call Centers
- Route Stations
- Shared Stations
- Commissions
- Customer Concession
- Connecting Motor Coach
- Local & Regional Police
- Block & Tower operations
- Terminal Maintenance of Way
- Insurance

Support Fees:

Some cost categories have an additional level of regional and national support not included in the Route Costs, and therefore also include Support Fees that are proportional to the service provided. Support Fees are determined by applying category-specific additives to an associated route cost or other aspect of service, (i.e. revenue or passenger miles). These additives were developed by converting support cost data from the APT system into rates that would be consistent across all trains in a region, or in some cases, all state-supported trains.

For example, Amtrak provides mechanical support, facilities and services that can reasonably be apportioned between Amtrak's business lines – the Northeast Corridor (NEC) trains, long-distance trains and state-supported trains. The Maintenance of Equipment (MoE) support fee represents the portion of those costs allocated to state-supported trains and is determined by applying an additive rate to the Car & Locomotive Maintenance and Turnaround route cost.

There are six categories of Support Fees are determined as follows:

- Train & Engine Crew Support (T&E): A combination of system and division additives applied to Train & Engine Crew Labor route costs. All corridors will be charged a system additive which is fixed (*12.9 percent*) and a division additive which is variable (*13.5-24.3 percent*). The division additive is based on the Amtrak region in which the corridor operates and is linked to the management structure within Amtrak that is responsible for service delivery by train crews. The T&E system additive rate excludes costs from Amtrak's Consolidated National Operations Center (CNOC), which are considered a "backbone" cost.
- Maintenance of Equipment (MoE): A fixed system additive (*27 percent*) applied to the Car & Locomotive Maintenance and Turnaround Route Cost. The MoE additive rate excludes backshops and fleet engineering costs, which are considered a "backbone" cost.
- On Board Services (OBS): A fixed system additive (*10 percent*) applied to the OBS Crew & Provisions Route Cost.
- Marketing: A variable regional additive (*1.9 - 2.8 percent*) applied to total revenue. The marketing additive is based on the degree to which a state corridor is connected to the NEC or to a major Amtrak hub station. Corridors that fall into those categories will have a higher additive associated with Amtrak's higher level of shared marketing in those regions.
- Police: A fixed system additive (*$.005*) applied to passenger miles.
- General & Administrative: A fixed system additive (*2 percent*) applied to Total Route Costs.

The additive rate will remain the same for three years beginning October 2012, unless there is a significant unforeseen event, such as a significant decrease in Amtrak's Federal funding or a significant change to the size of Amtrak's network. A change in the additive rate during the three-year term must be approved by Amtrak and the states. At the end of the three year period, Amtrak will propose adjustments to the additive rates if they are necessary. States and Amtrak must mutually agree on additive rate adjustments.

The table below illustrates the S209 Operating Cost Pricing Methodology. The definitions of cost categories and additives are described in more depth in ***Appendix E.***

S209 Operating Cost Pricing Methodology

ROUTE COSTS	+	SUPPORT FEE	=	OPERATING COSTS
Train & Engine Crew Labor		*T&E Route x (Division Additive* + System Additive (12.9%)*	=	Total Train & Engine Crew Labor
Car & Locomotive Maintenance & Turnaround	+	*Car & Loco Route Cost X System Additive (27%)*	=	Total Maintenance of Equipment
On Board Service (OBS) Crew & Provisions	+	*OBS Route Cost x 10% OBS Additive*	=	Total On Board Services
Route Advertising			=	Total Route Advertising
Sales & Distribution	+	*Marketing Additive* x Passenger and Allocated Revenue**	=	Total Sales & Marketing
Reservations & Call Centers			=	Total Res & Call Center
Stations – Route			=	Total Route Stations
Station – Shared			=	Total Shared Stations
Commissions			=	Total Commissions
Customer Concessions			=	Total Concessions
Connecting Motor Coach			=	Total Motor Coach
Regional/Local Police	+	*Passenger Miles x Police Additive ($0.005)*	=	Total Police & Security
Terminal Yard Operations			=	Total Terminal Yard Ops
Terminal Maintenance of Way			=	Total Terminal MoW
Insurance			=	Total Insurance
Total Route Costs *(Sum of Above)*	+	*Total Route Costs x General & Administration Additive (2%)*	=	General & Administrative
				Route Service Fee *(Sum of Above)*
		Host RR Maintenance of Way + Host RR Performance + Fuel & Power	+	3rd Party Costs
			=	**Total Operating Costs** *Service Fee + 3rd Party Costs*
			-	Less Passenger and Other Allocated Revenue
			=	**NET STATE COST**

**Denotes variable additive. Reference Appendix E*

Passenger and Other Allocated Revenue

Passenger revenues include ticket revenue and food and beverage revenue attributable to a particular route. Other Allocated Revenue includes miscellaneous revenue related to a route's passenger train operations, such as ticket by mail fees, loyalty marketing revenue, commissions from sales of third-party services during the reservations process (call/Internet "tipping"), package express where applicable, and other.

Optional Services and Pricing

States may wish to independently contract with alternative service providers for some services rather than Amtrak. For example, states may contract directly with vendors for food service, equipment maintenance, and other 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.

Operating Surplus
In the case where a route achieves an operating surplus, that route's surplus funds will be applied as follows: first, to operating payments for other routes supported by that state; second, to equipment capital charges for that state; third, for agreed upon fixed asset capital charges for that state; fourth, for future operating and capital payments by that state.

Methodology for Determining Capital Costs

Amtrak makes substantial capital investments in equipment (rolling stock) and other fixed assets needed to deliver passenger rail services. Under this policy, Amtrak will charge states for a share of these investments proportional to their use in state-supported services. Based on Section 209 requirements, the capital charge, or capital use charge[2], will be allocated to each route; each sponsoring state is responsible for funding its capital charge. Amtrak will work with states to find federal and other sources of funds to assist with the capital charge.

The capital charge will be forward looking and investment-based. Amtrak will assess an annual capital charge to each state for the following asset types:

- Equipment – existing and new Amtrak-owned;
    - For existing rolling stock, states will be charged a pro rata share, based on Units Used, of capital overhauls performed on the equipment classes they use to assure the assets remain FRA compliant and in a state of good repair
    - For rolling stock procured in the future by Amtrak, states will be charged a pro rata share of the purchase price, financing cost, and capital overhauls reflecting costs paid by Amtrak
    - Capital equipment charges will vary from year to year based on the life cycle maintenance plan associated with the equipment type.
- Other Amtrak fixed assets, including joint stations and Amtrak-owned rights of way;
    - This policy contains no formula-based fixed asset capital charge for Amtrak's other fixed assets such as stations and other facilities. Because of the unique nature of the fixed assets on each route, Amtrak and the states will develop an investment plan to maintain fixed assets in a state of good repair on a case-by-case basis during contract negotiation. States and Amtrak, as necessary, will be responsible for their pro rata share of any capital investments required on these Amtrak owned assets based on usage of these assets by state-supported and other users such as Amtrak long distance and/or commuter.
    - Amtrak will work with states to jointly identify and prioritize route-specific capital projects
- Other investments in assets not owned by Amtrak but required to maintain or enhance service.
    - Some routes make use of assets owned by third parties such as host railroads or state and local governments. States and Amtrak, as necessary, will be responsible for their pro rata share of any capital investments required on these non-Amtrak owned assets based on usage of these assets by state-supported and other users such as Amtrak long distance and/or commuter.

[2] Depending on specific state needs, the charge for capital investment on a state corridor can be characterized as a capital charge or a capital use charge For purposes of this document, the term "capital charge" encompasses both characterizations

A complete description of capital cost categories is included in ***Appendix E.***

Amtrak will develop a defined five-year investment program in cooperation with each state that describes the capital investments to be made over the period and the payments expected from the states throughout the period to support the five-year capital program. The program will be adjusted as needed in each annual contract update.

The five-year program would include detailed, verifiable program work elements to be accomplished by Amtrak in support of state services annually. In the case of investments/overhauls for equipment used in multiple routes, a sharing relationship will be negotiated at the beginning of each fiscal year based on the route's actual use of equipment as recorded by the APT system and adjusted for any changes in service expected in the upcoming year.

Amtrak will use the best available data to provide the state with an estimate for its capital charge prior to signing an agreement for state supported service. At the end of the contract period, Amtrak will reconcile that estimate to the actual capital investment by that equipment type and a state's use of equipment, as previously determined in each state's annual contract.

In cases where Amtrak spent less on capital programs than planned, Amtrak will apply a credit balance to future years' capital charges. In cases where Amtrak spent more on capital programs than planned, there will be no adjustment to the current year's charge but an adjustment will be made on the subsequent year's charge based on look forward investment strategies.

Amtrak will include the capital charge as a component of each state's Annual Operating Support Agreement. This capital charge will equal each state's pro rata share of the overhaul work described above. States may pay this amount from operating or capital funds, depending on a state's individual financial policies and/or grant sources.

The timing of the billing for capital charges will depend on the timing of the planned capital expenditures. The monthly cash flow for the equipment charge would be determined as part of the development of the Annual Operating Support Agreement.

Attribution of Previous State Capital Investments on the Amtrak Network

Some states have made capital contributions to Amtrak assets in association with their services. For Amtrak-owned equipment, states will be credited for the net present value of past capital investments in Amtrak equipment at the time of Section 209 implementation. This will compensate States for investments they have made in pooled assets used by multiple routes. These past equipment investments by States will allow all routes using that equipment type to schedule future capital replacements at a later date than would have been the case without the prior state investment. Amtrak will work with states to calculate the value of past capital investments in a mutually agreeable way.

For fixed assets, whether owned by Amtrak or other third parties, the capital charge is based on planned investments, not past depreciation, and represents the funding needed to make the agreed-upon investments to sustain existing service levels. As a result, any credit that reduces the capital charge would reduce the funds available for investment, create a funding gap, and prevent the needed investment. Therefore, credit towards future fixed asset capital charges cannot be given within the framework of the Section 209 policy for prior investments made by a state in Amtrak or third party assets. Notwithstanding the inability to fund a fixed asset credit, past State investments in Amtrak or other fixed assets should result in a longer service life for the asset,

and a resulting reduction and/or deferral in the amount of future capital investments, as well as maintaining and/or improving a route's operating performance.

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 estimate projected costs for the contract period and share them with states. 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 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.

State Corridor-Amtrak Contract Template

Amtrak and the SWG developed a contract template for states and Amtrak to use as they work together to develop their contract for services. The contract template addresses the key issues that states and Amtrak must discuss and address in some fashion to develop their agreements for the contract period. The contract template can be customized to reflect state differences. ***Appendix F*** outlines the proposed contract template

Transition from Prior Costing Methodologies

Section 209 of PRIIA requires that the new methodology be fully implemented by October 16, 2013 – that date closely aligns with the beginning of Federal Fiscal Year (FFY) 2014 on October 1, 2013. States may transition to the Section 209 methodology at a mutually agreed upon time prior to October 1, 2013 provided this transition does not result in a reduction in net forecasted state payments to Amtrak compared to that State's prior methodology. Otherwise, all states will transition to the Section 209 methodology effective October 1, 2013.

FRA staff met with the Amtrak and the SWG several times during the course of Section 209 methodology development. The FRA recognizes that the implementation of the new methodology will require increased financial support from states. FRA staff have committed to continuing their work with Amtrak and the states to develop a possible transition assistance plan to ease the impact of Section 209 on the affected states. The states, Amtrak and FRA recognize that any transition plan will need to ultimately be addressed by Congress.

Appendix A: Routes Affected by PRIIA Section 209

	Route Miles[3]	State-Supported FY10[4]	System Trains	State-Supported per PRIIA Sec 209
Single-State[5]				
Empire Service	461	-	Yes	Yes
Lincoln Service (Chi-St Louis)	284	Yes	Partial	Yes
Illini/Saluki	310	Yes	-	Yes
Illinois Zephyr/Carl Sandburg	258	Yes	-	Yes
Pacific Surfliner	350	Yes	Partial	Yes
Capitols	168	Yes	-	Yes
San Joaquins	315	Yes	-	Yes
River Runner (KC-St Louis)	283	Yes	-	Yes
Piedmont	173	Yes	-	Yes
Multi-State (Non-NEC)				
Ethan Allen Express	241	Yes	-	Yes
Maple Leaf	545	-	Yes	Yes
Downeaster	116	Yes	-	Yes
Hiawatha	86	Yes	-	Yes
Wolverines	304	-	Yes	Yes
Heartland Flyer	206	Yes	-	Yes
Cascades	467	Yes	Partial	Yes
Adirondack	381	Yes	-	Yes
Blue Water	319	Yes	-	Yes
Hoosier State	196	-	Yes	Yes
Pere Marquette	176	Yes	-	Yes
NEC Base-increment (Single and Multi-State)[6]				
Vermonter	611	Yes	-	Yes
New Haven – Springfield	63	-	Yes	Yes
Keystone Service	195	Yes	Partial	Yes
Boston/New Haven-Lynchburg	173	Yes	-	Yes
Washington-Richmond	187	Yes	Partial	Yes
Pennsylvanian	353	-	Yes	Yes
Carolinian	479	Yes	-	Yes

[4] For routes with multiple frequencies having different origins and destinations, represents the longest rail trip possible on multiple trains
[5] FY10 State support does not include capital payment, or in some cases all trains on a route
[6] Routes with 95% or more route miles in one state are considered single state
[6] Excludes route miles on NEC

Appendix B: Relevant Legislation

SEC. 209. STATE-SUPPORTED ROUTES.

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under
subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for
the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year
after the Board's determination of the appropriate methodology.

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

49 USC § 24102. Definitions

(5) "national rail passenger transportation system" means -

(A) the segment of the continuous Northeast Corridor railroad line between Boston, Massachusetts, and Washington, District of Columbia;

(B) rail corridors that have been designated by the Secretary of Transportation as high-speed rail corridors (other than corridors described in subparagraph (A)), but only after regularly scheduled intercity service over a corridor has been established;

(C) long-distance routes of more than 750 miles between endpoints operated by Amtrak as of the date of enactment of the PRIIA [October 16, 2008]; and

(D) short-distance corridors, or routes of not more than 750 miles between endpoints, operated by--(i) Amtrak; or (ii) another rail carrier that receives funds under chapter 244.

49 USC §24702. Transportation requested by States, authorities, and other persons provides:

(a) CONTRACTS FOR TRANSPORTATION. Amtrak may enter into a contract with a State, a regional or local authority, or another person for Amtrak to operate an intercity rail service or route not included in the national rail passenger transportation system upon such terms as the parties thereto may agree.

49 USC § 24904. General authority

(c) Compensation for Transportation Over Certain Rights of Way and Facilities. – (1) An agreement under subsection (a)(6) of this section shall provide for reasonable reimbursement of costs but may not cross-subsidize intercity rail passenger, commuter rail passenger, and rail freight transportation.

(2) If the parties do not agree, the Interstate Commerce Commission shall order that the transportation continue over facilities acquired under the Regional Rail Reorganization Act of 1973 (45 U.S.C. 701 et seq.) and the Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 801 et seq.) and shall determine compensation (without allowing cross-subsidization between commuter rail passenger and intercity rail passenger and rail freight transportation) for the transportation not later than 120 days after the dispute is submitted. The Commission shall assign to a rail carrier obtaining transportation under this subsection the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation under this paragraph incurred for the common benefit of Amtrak and the carrier. The proportionate share shall be based on relative measures of volume of car operations, tonnage, or other factors that reasonably reflect the relative use of rail property covered by this subsection.

Appendix C: Definition of NEC Capital Charges, Where Applicable

Normalized Replacement Capital Charge– Replacement of assets on a regular schedule designed to mitigate cyclical imbalances in renewal needs. Normalized replacement is the estimated annual capital investment requirements to maintain infrastructure in a state of good repair once it is in that condition.

State of Good Repair (SOGR) Backlog Capital Charge—An asset or group of assets that have received inadequate maintenance over a long period of time, or have not been replaced within standard life cycle. It may still be functioning as designed but face imminent heavy repair or replacement to overcome a "backlog" of regular maintenance which was not performed on schedule. For the Section 209 policy, SOGR Capital Charge will be calculated as incremental to the Normalized Replacement Capital Charge.

Appendix D: Amtrak-Owned Right of Way Eligible for Synthetic Host Railroad Charge

Amtrak-Owned Track Segment	Miles (Timetable)	Routes Affected
New Haven, CT – Springfield, MA	62	Springfield Shuttle
Philadelphia, PA – Harrisburg, PA	104	Keystones, Pennsylvanian
Porter, IN – Kalamazoo, MI	100	Blue Water, Wolverine
New York Penn Station – Spuyten Duyvil, NY	10.7	Empire Service

Appendix E: Definition of Cost Categories Used in State-Supported Service

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Major Cost Category	Cost Category	Definition	Formula
Third Party Costs	Host Railroad Maintenance of Way	Payments to host railroads for incremental costs, primarily maintenance of way associated with passenger operations	FM 307(Host RR) less incentives less Host RR fuel, less Host RR MoE
	Host Railroad Performance Incentives	Incentive payments to host railroads for meeting on-time and other performance targets	FM_307(Host RR) Schedule Adherence account
	Fuel and Power	Diesel fuel and electric power used in train operations	FM 304(Fuel) + FM_307(Host RR) fuel account +
Route Costs	Train & Engine (T&E) Crew Labor	Salaries, wages, benefits, and FELA for employees providing services for train operations Includes engineers conductors assistant conductors and related extra boards	FM_302_1(T&E Crew)
	Car & Locomotive Maintenance and Turnaround	Turnaround service consists of cleaning, inspection and minor repairs before or after revenue service Also contains scheduled running maintenance and bad order repairs Excludes capitalized maintenance and overhaul	FM 201(MoE Turnaround) + FM_202(MoE Loco Maint) + FM_203(MoE Car Maint) + FM 205(Moe Multiple, direct functions only) _ FM_307(Host RR, MoE account only)
	OBS Crew & Provisions	Salaries, wages and benefits for employees providing On Board Services in Café, Lounge, and Dining Cars, including related extra boards Also includes provisions loaded on train for sale	FM_301 1(OBS Crew) + FM_301 2(OBS Supplies)
	Route Advertising	Sales & marketing expenses in support of a specific route, budgeted and recorded separate from other sales & marketing expense	Specific cost centers in FM_403(Marketing)
	Sales Distribution	Sales and distribution operations, including development of new ticketing and on-board systems	FM_401(Sales (and Distribution) less Commission accounts
	Reservations & Call Centers	Reservation sales call centers for general public and travel agencies and supporting information systems	FM_402(Information & Reservations)
	Stations - Route	Stations serving a single route Depending on location, may include ticketing baggage and express, stationmaster and ushers, station cleaning and maintenance training and supervision	FM 501(Stations - Route)
	Stations - Shared	Stations serving multiple routes In addition to route station services, shared stations may include Red Cap and porter services	FM_502(Stations - Shared)
	Commissions	Commission expense from credit cards, travel agencies, airline system access fees, and sales by other carriers as applicable	Commission accounts in multiple families for credit card sales, travel agents and interline commission expense
	Customer Concession (Psgr Inconv)	Payments to passengers for food & lodging as a result of delays Generally includes unscheduled/ emergency motor coaches	Passenger inconvenience account in FM_G_A(General & Administrative)
	Connecting Motor Coach	Scheduled connecting motor coach services	FM_306(Train Movement) Connecting Motor Coach account
	Regional/Local Police	Local and regional police patrolling duties in support of Amtrak trains, facilities, and rights of way	FM_901_2(Police - Regional/Local)
	Block & Tower Operations	Crews who operate staffed towers along specific rights of way	Specific cost centers in FM 306(Train Movement)
	Terminal Yard Operations	Crews who move train equipment at larger terminals before and after revenue service	FM_303_2(Yard - Train & Equipment Moves) + FM_303 4(Yard - Terminal Rent/Yard Services)
	Terminal MoW	MoW expense at large Amtrak terminals, as applicable	Specific cost centers in FM MOW(Maintenance of Way)
	Insurance	Self and purchased insurance for passenger train operations	Allocated insurance expense in FM G_A(General & Administrative)
Additives	T&E	Division-specific and system overhead rates for T&E supervision and management Includes road foremen, superintendents crew bases, crew dispatching local and national operating rule compliance, and other support Excludes national train dispatching	Division / Division Rate / System Rate / Total Central 13 50% 12 90% 26 40% Mid-Atlantic 18 40% 12 90% 31 30% Mid-Atlantic/Southern 20 20% 12 90% 33 10% New England 16 50% 12 90% 29 40% New York 24 30% 12 90% 37 20% Pacific 19 50% 12 90% 32 40% Southern 20 60% 12 90% 33 50% Southwest 16 30% 12 90% 29 20% Total rate to be applied to T&E Crew Labor
	MoE	Maintenance of shops and equipment to support direct Mechanical activities Excludes Backshops and Fleet Engineering	27 10% of Route Cost Car & Locomotive Maintenance and Turnaround
	OBS	OBS and commissary management and supervision	10 00% of OBS Crew & Provisions
	Police	National police operations and support	$0 0050 per passenger mile
	Marketing	National marketing programs, including national advertising loyalty marketing, timetables, personnel in support of Route Advertising, shows, exhibits & special events, and other	Region / Rate Base-increment routes on NEC 2 80% Routes with one termina in Chicago 2 80% All other routes 1 90% Rate to be applied to Total Revenue
	General & Administrative	Charge for General & Administrative support including Computer Systems, Finance, Legal, and other	2 00% of Route Costs
Revenue Credit	Ticket revenue, net	Ticket revenue from passengers Where applicable, includes through revenue adjustments described elsewhere in policy	As reported by APT with adjustments for through revenue described elsewhere in policy
	Food & Beverage Revenue	On-board food & beverage sales Where applicable, pro-rated with supply expense across multiple legs	As reported by APT pro-rated with supply expense across multiple legs
	Other Revenue	Miscellaneous revenue as allocated by APT	As reported by APT

Appendix E: Definition of Cost Categories Used in State-Supported Service - Capital

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Major Cost Category	Cost Category	Definition	Formula
Equipment	Passenger service equipment	Capital overhauls for Amtrak-owned equipment in service on state-supported routes, including locomotives, cab cars, coaches, and food service cars. States will be charged for the periodic capital overhauls of equipment in a period based on their proportionate use of that equipment in that period	Capital overhaul expense: by equipment type, from Amtrak's capital accounting systems. Equipment usage statistics: from the Amtrak Performance Tracking system. Amtrak will provide States with an estimate of planned overhaul work at the beginning of a contract period and will reconcile the planned usage to actual work performed and actual equipment used in a State's service
	Other mechanical expense	Wreck repair, facility improvements, equipment engineering and design, general safety & reliability, mechanical IT projects	Not charged to States
Other Amtrak Fixed Assets	Amtrak-owned fixed Assets used in State Services	Includes assets such as Amtrak-owned rights of way, large terminals, stations, and other	To be handled on a case-by-case basis between Amtrak and State partners
Other non-Amtrak Fixed Assets	Non-Amtrak-owned fixed assets used in State services	Includes assets used in State services owned by third parties such as host railroads or state and local governments, such as rights of way, stations, and other	To be handled on a case-by-case basis between Amtrak and State partners

Appendix F: State-Amtrak Contract Template

Contract Outline

Effective Date: Contracts aligned to match each Agency's fiscal year

Parties: State Intercity Passenger Rail (IPR) Agency and Amtrak

Recitals/Boilerplate:

Section 1: Services to be Provided (multiple state funded services can be co-mingled under one agreement):

- Description of Amtrak Services and Service Standards {unique to each State}
- Train Schedule and Route Description {Train Service Schedules (including Connecting Bus Service, if applicable) detailed in appendix}
- Service Standards (see appendices) [Optional and specific to each State IPR Agency]
- Monitor the fiscal performance of the service/quarterly meetings (budget vs. actual)

Section 2: Decisions Affecting Service:

- Include Agency in discussions with railroads or appropriate regional rail authorities regarding schedule changes which impact service.
- Apprise Agency of any bargaining provisions that may impact service

Section 3: Amount of Reimbursement by the State IPR Agency:

- Agency's total financial obligation to Amtrak for the stated contract term shall be defined in terms of the following elements as part of the Section 209 Policy:
  - Service Fee—including Route Costs and Additives (including General & Administrative costs)
  - Third Party Costs—including fuel, host railroad access fees and incentive performance payments.
  - Other Special Cost Items as agreed upon between Amtrak and the Agency
  - Passenger Related Revenue—including ticket revenues, food and beverage revenues and other allocated revenues. These revenues are offsets from the above cost categories
  - Agency payment is the sum of the Service Fee, Third Party Costs, Other Special Costs Items with a credit for Passenger Related Revenue
- Forecasting financial elements always entails some risk as costs and/or revenues may vary from the forecasts. Amtrak and the Agency will determine the procedure for handling variances from forecasts during contract negotiations and, in particular, which party takes the risk for variances for each cost category. Options for managing and assigning variance risk are noted below:
  - Service Fee. Amtrak will make forecasts for the Service Fee. The assignment of variance risk will be subject to negotiation among the parties.
  - Third Party Costs. By definition, these costs are passed through Amtrak directly to the Agency. While Amtrak will make forecasts for these costs, the Agency will reimburse Amtrak for the actual amount of these costs whether they are lower than or higher than the Amtrak estimates

- Other Special Cost Items. These cost items will be negotiated between Amtrak and the Agency with the management of the variance between forecast and actual expenses governed in accordance with the particular arrangement between the parties
- Passenger Related Revenue. Amtrak will make forecasts for these items and the assignment of variance risk will be subject to negotiation among the parties.

Section 4: Manner of Reimbursement:

- Agency will pay Amtrak in accordance with the monthly payment schedule provided service operates at a deficit (see appendices)
- Invoices shall be rendered not less than forty-five (45) days prior to the due date.
- Force majeure
- Monthly Reconciliation Statements to State IPR Agency
- Remedies in the event that Amtrak fails to perform the services as required by this Agreement or Amtrak fails to provide revenue credits or carryover excess contract revenues
- Remedies in the event the State IPR fails to provide payment to Amtrak

Section 5: Defense of Claims {may vary due to scope of work}

Section 6: Inspection and Audit:

- Agency has the right to inspect the rail passenger and bus feeder services, facilities and equipment provided for service subject to adequate notice
- Amtrak shall provide the number of passengers carried and passenger miles operated for each train as well as other service-related reports as agreed-to by Amtrak and the Agency. Such data shall be computed and furnished on a monthly basis as described in the appendices (varies by State).

Section 7: Dispute Resolution {May vary}

Section 8: Force Majeure

- The obligations of Amtrak hereunder shall be subject to force majeure.

Section 9: Termination

Section 10: Notices

Section 11: Agreement Content

Section 12: Construction {May vary by State}

Section 13: Severability

Section 14: Compliance with Collective Bargaining Agreements

- The State acknowledges the existence of collective bargaining agreements between Amtrak and certain labor organizations representing certain of Amtrak's employees, and agrees that Amtrak will provide the

Service in a manner consistent with its obligations and rights under such agreements, as they may exist from time to time.

Section 15: State-Required Provisions (unique to each State):

- Appropriation of Funds
- Non-Discrimination
- Fair Employment Practices
- Contractor Integrity

Signature Blocks

Appendices: (contents and number of appendices will vary by State):

- National Section 209 Policy
- Train Service Schedules (and Connecting Bus Service, if applicable)
- Budget
- Payment Schedule
- Examples of Services and Performance Standards {OPTIONAL}
  - Provision of Equipment—Availability and Condition
  - Equipment Maintenance Standards
  - Reliability of Service—On Time Performance
  - Maintenance of Stations
  - Crew Performance, Supervision and Standards
  - Food Service
  - Reservations/Call Center
  - Marketing Support
  - Other Services

Exhibit B

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Amtrak State Partnerships
Section 209 Pricing Discussion

John Bennett

AVP – Policy Management
Policy & Development Department

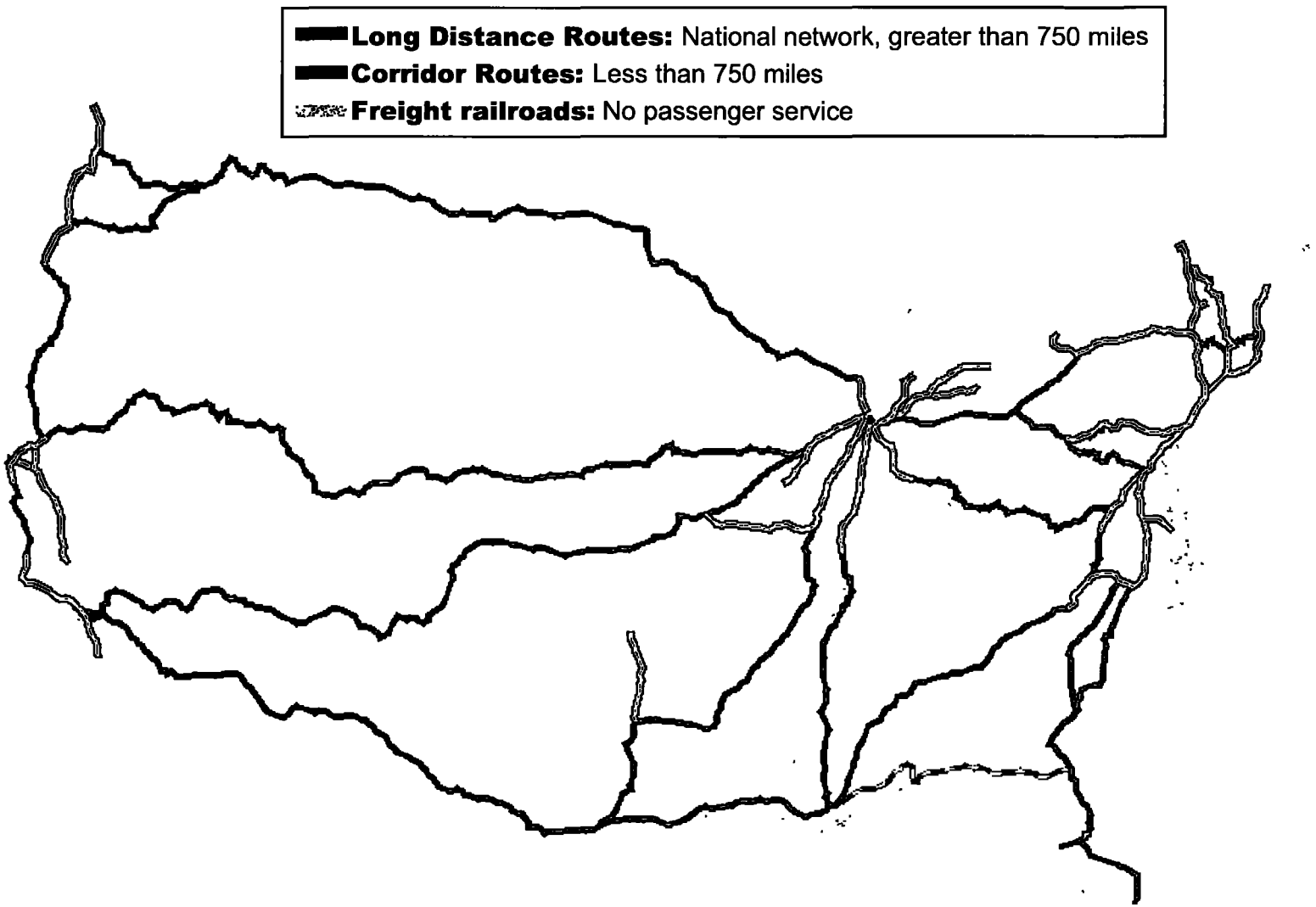
AASHTO SCORT Meeting, March 8
Washington, DC

Today's Discussion

- Framing the Challenge
- Actions Completed
- Next Steps for Section 209 Development
- Opportunities, Challenges, Key Questions

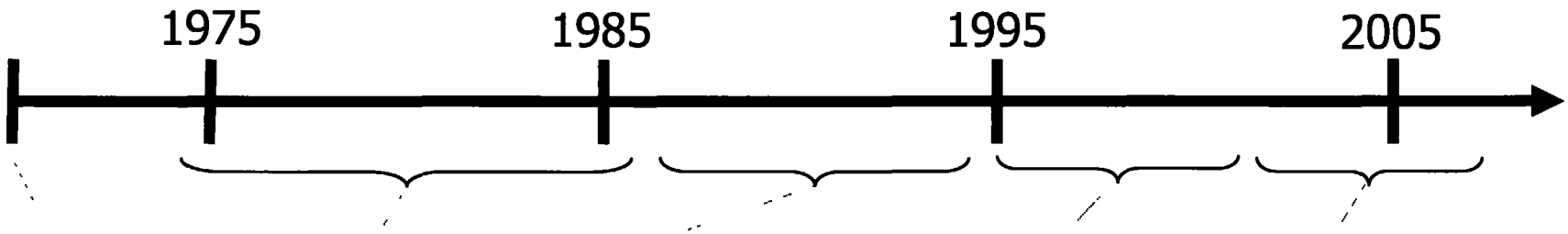
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Amtrak Network Today



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Statutory Evolution of State Supported Services



- 1970 Rail Passenger Service Act:
- Basic System – Amtrak required to operate designated routes
- 403(b) – states can request additional service if they cover portion of costs

- 1974-86: State share of costs specified under 403(b) amended by Congress 6 times; modest expansion of state service

- 1986 provision: States required to pay portion of "short-term avoidable loss" (45% in Yr 1, 65% in Yr 2), plus 50% of associated capital costs; significant expansion beginning in early 1990s

- 1997 Amtrak Reform Act: Repeals 403(b), eliminating statutory requirements re: state-supported trains; also repeals requirement for Basic System trains
- 1995-2001: Amtrak seeks higher state payments; but approach varies widely across 3 new "SBUs"

- 2002-2007: Cost terms for all state-supported trains (formerly "403(b)") standardized – states pay full "direct and shared operating costs not covered by revenues"

Meanwhile system corridor trains continue to operate without state financial support creating an equity issue

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PRIIA Initiatives and Requirements

Sec. 209 - State-supported routes:
Amtrak, states, and FRA must develop and implement a single nationwide standardized methodology for establishing and allocating operating and capital costs among the states and Amtrak

Sec. 207 - Metrics and Standards

Sec. 210 - Long Distance Routes

Sec. 212 – NEC Infrastructure & Operations Improvements

Sec. 213 – Passenger Train Performance

Sec. 301 - Capital Assistance

Sec. 302 - Congestion Grants

Sec. 303 - State Rail Plans

Sec.305 - Next Generation Corridor Equipment Pool

Sec. 307 - Federal Rail Policy

Sec. 501 - High Speed Rail Grants

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Section 209 Overview: Clarifying the State/Federal Partnership

- Federal government supports Amtrak service with operating support and capital infusion
  - Capital investments in equipment and infrastructure allow operating revenue to be used for operating support
  - Obviates need for 'profit' to be reserved for capital investment
- State governments determine the amount and level of intercity corridor passenger rail desired:
  - State Rail Plans: "this is what we want"
  - Understanding of operating and capital cost implications (TBD through Sec 209 process): "these are the costs we have to cover"
  - Amtrak service agreements: "this is the deal"
- States benefit from Amtrak's Federal Government-supplied support:
  - Incremental cost access rights and dispatching priority to host railroads (the "public bargain" the private railroads made in return for federal relief from passenger service losses)
  - Rather than pay fully-allocated costs, states only pay direct costs, and some shared costs as determined through Sec 209 process—difference is federal support through Amtrak
  - Sec 209 and Sec 301 (Capital Assistance) allow states to use PRIIA capital funding for host railroad capital payments and Amtrak capital charge

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State Supported Service Pricing - Section 209 Overview

- Section 209 of PRIIA requires, within 2 years (October 16, 2010), that the Amtrak Board of Directors, in consultation with the DOT Secretary, the governors of each relevant State, and the DC Mayor, or entities representing those officials, develop and implement a single nationwide standardized methodology for establishing and allocating costs among the States and Amtrak.

- Methodology applies to both the **operating** and **capital** costs

- Applies to all current and future intercity passenger rail routes over a federally-designated HSR corridor and/or of less than 750 miles, excluding the NEC spine

- Methodology must:
  - (1) Ensure equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and
  - (2) Allocate 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.

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Section 209 Overview: Consequences of No Agreement

- Methodology is to be defined and agreed upon within 2 years (October 16, 2010) and adopted and implemented within 5 years (October 16, 2013).
- Failure to agree by all parties results in the development and imposition of a formula by the Surface Transportation Board (STB).
- STB shall develop the methodology in accordance with section 24904(c) of Title 49, United States Code:
  - "…the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation" (Emphasis added)
- STB methodology would be implemented within one year after the Board's determination.

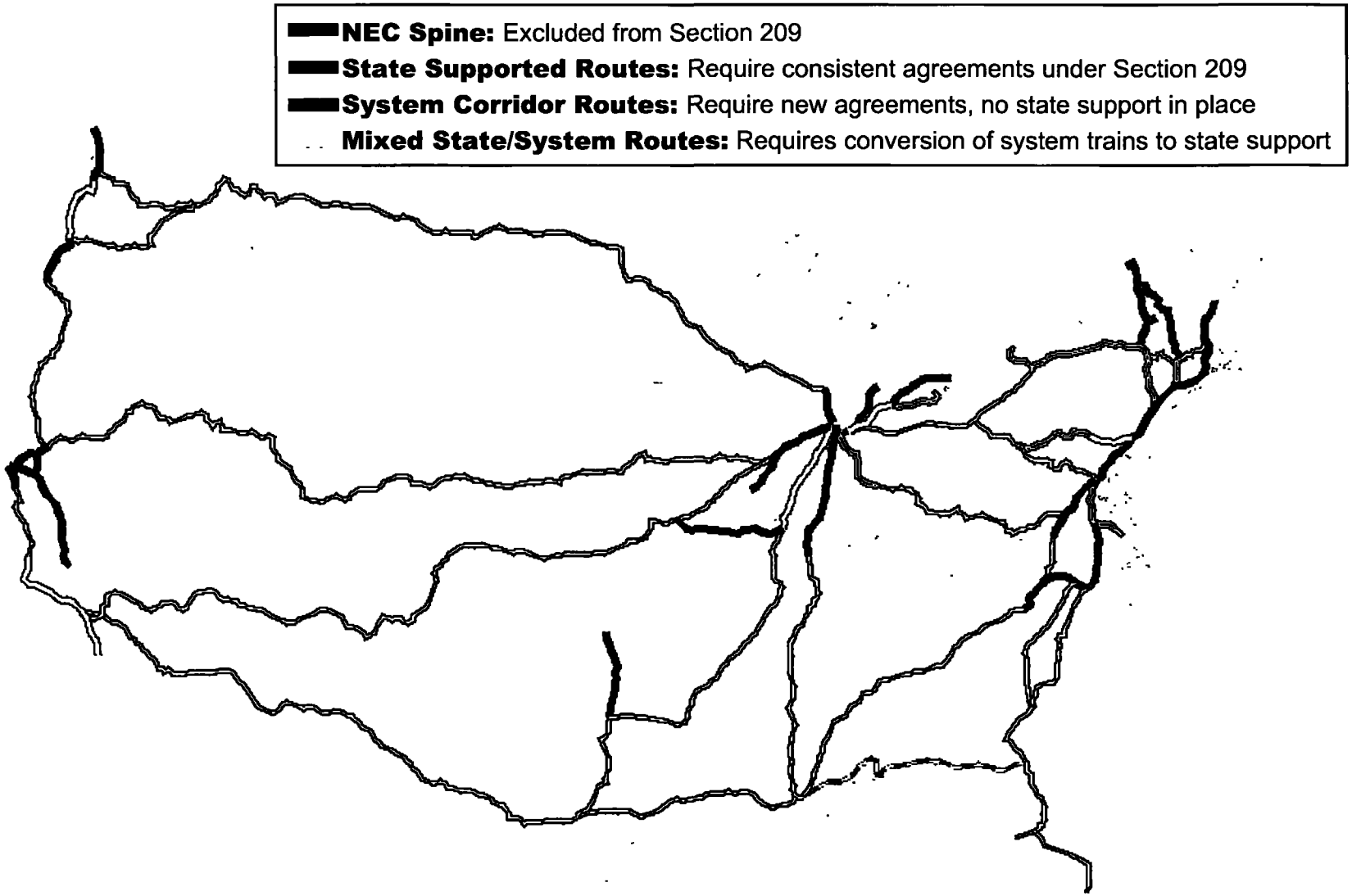
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State Supported Train Pricing – Principles and Challenges

- Basic principles for new operating cost methodology:
  - Consistency: "System" corridors must be converted to state support
  - Transparency: Understandable/straightforward
  - 100% of direct costs plus a proportionate amount of indirect costs
  - Service level based (as service changes associated costs change)
  - Management/assignment of risk
- Challenges:
  - Linkage of future costs with future service plans
  - Linkage to the new Amtrak Performance Tracking (APT) system
  - Definition and cost recovery for capital costs—largely equipment and facilities
  - Cost forecasting and alignment with Amtrak's operating budget
  - Type of service contract (pure cost-based, performance-based, negotiated contract structure)

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Corridor Services – Impacted Routes



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- Framing the Challenge
- Actions Completed
- Next Steps for Section 209 Development
- Opportunities, Challenges, Key Questions

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First Steps Toward a Standard Structure

- Adopt Amtrak Performance Tracking (APT) system as the analytical framework for defining the future policy—new Federally supported model
  - Replaces RPS (Route Profitability System)
  - Jointly developed with US DOT Volpe National Transportation Systems Center
  - Incorporates analysis of "capital charge"
- Begin transformation to a uniform structure: FY 2010 agreements based on an attempt to provide consistent treatment of major categories and risk—for those states with *existing* contracts (though not all states have concurred)
  - Payments based on:
    - Actual passenger revenues and host railroad payments
    - Agreed-upon fuel usage and cost methodology
    - Fixed values for remaining costs—defined as "service fees"—based on inflation-based increases (as adjusted, in some cases) to FY 2009 contract amounts
  - No change in current state-specific agreements on cost sharing— **for now**

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Significant Advantages of APT – Technology and Structure

RPS	APT	APT Advantage
Mainframe based	Client-server based	•More transparent •Easier updates, reporting •Mainframe at end of life cycle
Legacy RPS "Lines"	"Families" of Res Centers and General Ledger Accounts	• Res Centers and GL accounts widely used and understood at Amtrak
Shared costs allocated only to Amtrak trains	Shared costs allocated to Amtrak trains, commuter trains, freights, others	• Improved accuracy and more equitable allocation

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Amtrak Performance Tracking – Overview of Improved Process

Cost Type	Examples	How Handled in APT
Direct, train-specific data	• Train & engine labor • OBS labor • Host RR payments	•Assigned directly to a train
Direct, no train-specific data	• Fuel & power • Turnaround servicing • Route stations	• Assigned or allocated to trains • If allocated, a statistic is used
Shared costs	• Shared stations • Maintenance of way • General & administrative	• Allocated to relevant trains (including commuter and freights) based on a statistic
Capital charge	• Rolling stock • Infrastructure	• APT calculates capital charge (described later in presentation)

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Computation of Route-Specific State Payments Under Section 209

- State payment has two components:

Operating Charge

(Direct Costs + Proportionate Shared Costs) – Passenger Related Revenue

Capital Charge

- Direct Costs
  - "Costs incurred only for the benefit of that route"
  - Direct labor and other direct costs
- Shared Costs
  - "Costs incurred for the common benefit of more than one route"
  - Proportionate share based on factors that reasonably reflect relative use
  - Policy determination among the states and Amtrak:
    - Cost categories to be established
    - Methods to use for allocation
- Passenger-Related Revenue
  - Ticket, Food & Beverage
  - Treatment of through revenue in extensions of NEC spine
- Capital Charge
  - Cost for asset replacement

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Examples of Direct, Shared, and Capital Costs

Direct Costs (1)		Shared Costs (2)	Capital Costs (2)
Direct Labor	**Other Direct**		
• Train & Engine Crew Labor • On Board Service Labor and Support	•Host RR Maintenance & Incentives •Fuel and Power •Commissary •Car & Loco Maintenance and Turnaround •Direct Advertising •Commissions •Reservations and Call Centers •Customer Concession (Passenger Inconvenience) •Connecting Motor Coach •Stations – Route	•Stations – Shared •MOE Supervision, Training and Overhead •MOW Support •Yard Operations •Marketing and Distribution •Police, Environmental, and Safety •T&E Overhead and Operations Management •Utilities •General and Administrative	•Rolling stock •Stations •Amtrak-owned ROW •Maintenance Facilities •Technology & Systems

1) Required charge under Sec. 209

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

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Key Milestones Toward a New Policy—Capital Charge

- Volpe Center finalizing capital charge to be added to APT
- Capital charge will equalize effects of different financing arrangements for similar assets/equipment
  - Example without capital charge: one Amfleet coach is owned; another is leased at a low interest rate; another is leased at a high interest rate
- Components of capital charge include acquisition expense; useful service life; interest rate
  - Example with capital charge: all users of Amfleet coaches charged same capital charge
  - Also, working capital balances required to support larger operations
- Where states own equipment or have financed capital projects, capital charge will be reduced accordingly
- APT is starting point of capital charge—details to be worked out

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- Framing the Challenge
- Actions Completed
- Next Steps for Section 209 Development
- Opportunities, Challenges, Key Questions

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Process Steps and Support

- Collaboration at two levels: National and State
  - Policy for consistent application—national policy proposal review and discussion meetings
  - Application of policies at state level—state-specific working group meetings
  - Feedback from state-level meetings back to national policies to gain consistency in approach (even if the state-specific results of the national policy vary due to the uniqueness of each state)
- Support desired to accomplish the mission:
  - Representation of states in regional workshops and/or structured interviews
  - Logistical support could be provided by AASHTO or others (to be negotiated)

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Regional Workshop Meetings – April & May

- Proposed Schedule and Duration of Workshops
  - Sacramento: CCJPA, Caltrans (2 days)
  - Portland: Washington, Oregon (2 days)
  - Chicago: Michigan, Illinois, Wisconsin (2 days)
  - Oklahoma City: Missouri, Oklahoma, Texas (1 day)
  - New York: New York, Pennsylvania (2 days)
  - Boston: Vermont, Maine (1 day)
  - Richmond: Virginia, North Carolina (2 days)
- Agenda
  - Existing contract review
  - FY2011 forecasts
  - Cost Families – "establishment" and "allocation"
  - Capital charge discussion

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Current Vision of Schedule and Development

- National meeting #1—March 2010 ✓
- Regional workshop meetings—April, May (for both multi-state discussions and one-on-one discussions)
  - Amtrak's formulation of first pass methodology based on regional workshops
- National meeting #2—June 9-10, 2010: Update/refinement of methodology
  - Operating Support principles update:
    - Review/discussion of ResCens for operating cost sharing
    - Statistics to use for cost sharing
  - Discussions of Capital Support principles update:
    - Review/discussion of Amtrak-owned assets for cost sharing—and off-set potentials—linked to Section 305 (Next Gen Corridor Equip)
    - Process for determination of annual forecasts
  - Results of first pass methodology
  - State and Amtrak roles in collaborative forecasting: operating costs, operating statistics, equipment requirements, passenger revenues, etc.
  - Standard contract structures

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Current Vision of Schedule and Development—2

- Review of Proposed Section 209 pricing with Amtrak Board of Directors, July 28-29, 2010
- Regional workshop meetings—July, August (for both multi-state discussions and one-on-one discussions)
  - Application/testing of the principles at state level, refinement recommendations, suggestions for adjustments
- National meeting #3—Sep/Oct 2010 (two days): Review of Proposed Policies in draft form
  - Operating Support principles
  - Discussions of Capital Support principles
  - Capital contribution offset process (e.g., fleet replacement from capital grant applications by states)
  - State and Amtrak roles in collaborative forecasting
  - Standard contract structures
  - Phase-in schedule to full implementation — no later than 2013
  - Logistical support (travel?) provided by AASHTO/others (to be determined)
- Submission of Letters of Concurrence to DOTs—Oct/Nov
  - State-specific meetings as required

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- Framing the Challenge
- Actions Completed
- Next Steps for Section 209 Development
- Opportunities, Challenges, Key Questions

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Opportunities and Challenges

- Opportunities
  - – Section 209 state support structure will provide framework for state planning for intercity passenger rail
  - – Provides a basis for supporting capital grant applications to the FRA—as the question of operating support will be addressed
  - - Contributes to system viability and maturation
  - – Simplifying the process while capturing the essence of the support payment process
    - - Ease of implementation
    - - Ease of audit
    - - Ease of billing
- Challenges
  - – Risk apportionment—who takes the forecasting risk and for what elements?
  - – Gaining concurrence

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Key Questions

1. Extent of Shared Cost recovery

2. Contract term – FRA requirements for long-term operating commitments accompanying capital grants.

3. Incorporation of capital contributions from states—specific contracts with offsets for state-furnished funding for state of good repair/replacement/improvement of Amtrak-owned assets used in state supported service

4. Management of the input process—what service changes expected and when; what are implications?

5. Risk sharing/structure of contracts

6. If not every state agrees, what happens?

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Appendix

Methodology for Determining the Avoidable and Fully Allocated Costs of Amtrak Routes

Vol. I, Main Report (December 2009) – available on website

Vol. II, Appendix A and Vol. III, Appendix B – forthcoming

http://www.fra.dot.gov/Pages/1996.shtml

FRA Home » Passenger Rail » Publications, Studies & Reports » Reports to Congress

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Exhibit C

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Historical Review of State-Supported Service and PRIIA Section 209 Text

John Bennett

AVP – Policy Management
Policy & Development Department

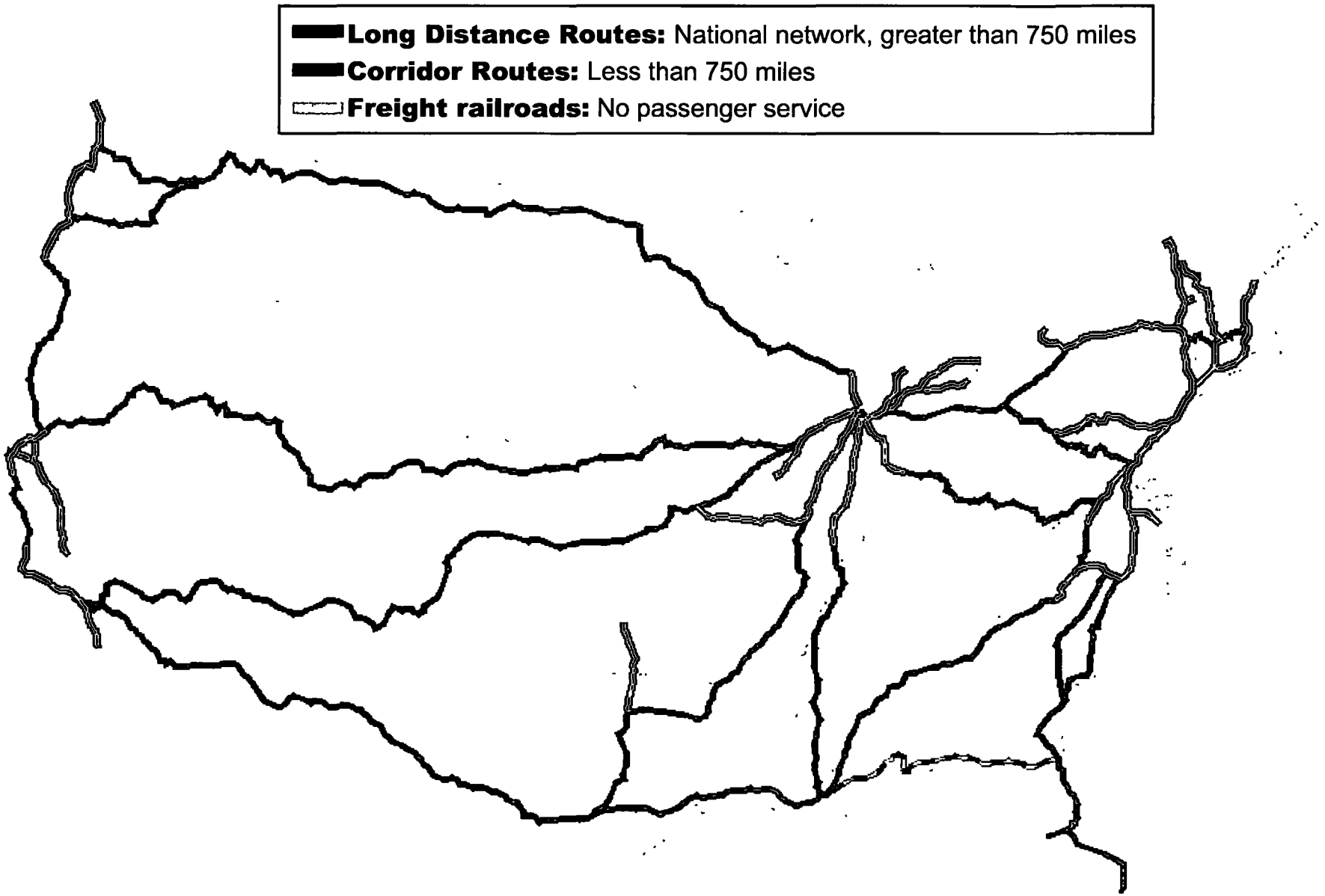
Section 209 National Meeting, April 20-21
Chicago, IL

April 20 AM Discussion

- Evolution of State-Supported Service and Past Efforts at Standardization
- PRIIA Sec 209 Intent and Language
- Amtrak Corridor Services today
  - Single State
  - Multi-State (non-NEC)
  - NEC Base-Increment (Single- and Multi-State)

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Amtrak Network Today



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Statutory Evolution of State Supported Services



- 1970 Rail Passenger Service Act:
- Basic System – Amtrak required to operate designated routes
- 403(b) – states can request additional service if they cover portion of costs

- 1974-86: State share of costs specified under 403(b) amended by Congress 6 times; modest expansion of state service

- 1986 provision: States required to pay portion of "short-term avoidable loss" (45% in Yr 1, 65% in Yr 2), plus 50% of associated capital costs; significant expansion beginning in early 1990s

- 1997 Amtrak Reform Act: Repeals 403(b), eliminating statutory requirements re: state-supported trains; also repeals requirement for Basic System trains
- 1995-2001: Amtrak seeks higher state payments; but approach varies widely across 3 new "SBUs"

- 2002-2007: Cost terms for all state-supported trains (formerly "403(b)") standardized – states pay full "direct and shared operating costs not covered by revenues"

Meanwhile system corridor trains continue to operate without state financial support creating an equity issue

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Section 209 Overview: Clarifying the State/Federal Partnership

- Federal government supports Amtrak service with operating funds and capital infusion
  - Capital investments in equipment and infrastructure allow operating revenue to be used for operating funding
  - Obviates need for 'profit' to be reserved for capital investment
- State governments determine the amount and level of intercity corridor passenger rail desired:
  - State Rail Plans: "this is what we want"
  - Understanding of operating and capital cost implications (TBD through Sec 209 process): "these are the costs we have to cover"
  - Amtrak service agreements: "this is the deal"
- States benefit from Amtrak's Federal Government-supplied support:
  - Incremental cost access rights and dispatching priority to host railroads (the "public bargain" the private railroads made in return for federal relief from passenger service losses)
  - Rather than pay fully-allocated costs, states only pay direct costs, and some shared costs as determined through Sec 209 process—difference is federal support through Amtrak
  - Sec 209 and Sec 301 (Capital Assistance) allow states to use PRIIA capital funding for host railroad capital payments and Amtrak capital charge

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Section 209 text: (a) General

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

- Passed Oct 16, 2008: 2 years = Oct 16, 2010
- "in consultation with": collaborative process
- Single, nationwide, standardized methodology: all corridors treated equitably
- See statutes in handouts

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Section 209 text: (a) (1) & (2)

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

- Passed Oct 16, 2008: 5 years = Oct 16, 2013
  - Transition period
- "allocates" – Amtrak Performance Tracking (APT)
- "costs incurred only for the benefit of that route" = **Direct Costs**
- "costs incurred for the common benefit of more than 1 route" = **Shared Costs**

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Section 209 text: (b) Revisions

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

- This will be a "living" policy
  - Changes due to continuing refinements of Amtrak accounting system

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Section 209 text: (c) Review

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year after the Board's determination of the appropriate methodology.

- Failure results in the development and imposition of a formula by the Surface Transportation Board (STB)
- §24904(c) of Title 49:
  - "…the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation"
- If Oct 16, 2010 voluntary deadline missed, then 1 year to STB implementation

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Section 209 text: (d) Chapter 244 Funds

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

- Chapter 244, Title 49:
  - Capital grants can be used to pay capital charges

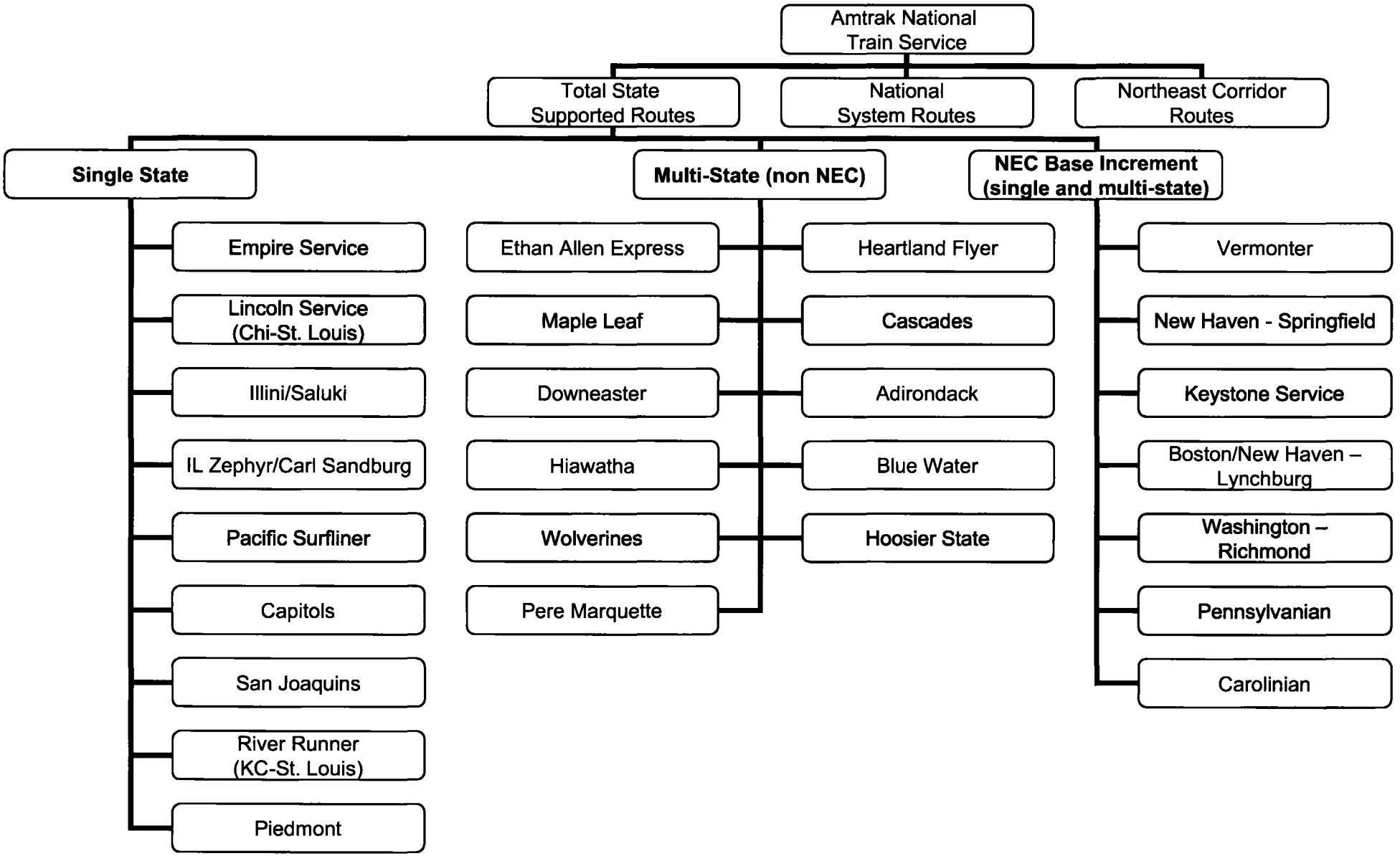
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State Supported Train Pricing – Principles and Challenges

- Basic principles for new operating cost methodology:
  - Consistency: "System" corridors must be converted to state support
  - Transparency: Understandable/straightforward
  - 100% of direct costs plus a proportionate amount of indirect costs
  - Service level based (as service changes associated costs change)
  - Management/assignment of risk
- Challenges:
  - Linkage of future costs with future service plans
  - Linkage to the new Amtrak Performance Tracking (APT) system
  - Definition and cost recovery for capital costs—largely equipment and facilities
  - Cost forecasting and alignment with Amtrak's operating budget
  - Type of service contract (pure cost-based, performance-based, negotiated contract structure)

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Segmentation of Amtrak's National Train Service



Some/all service not currently paid by states

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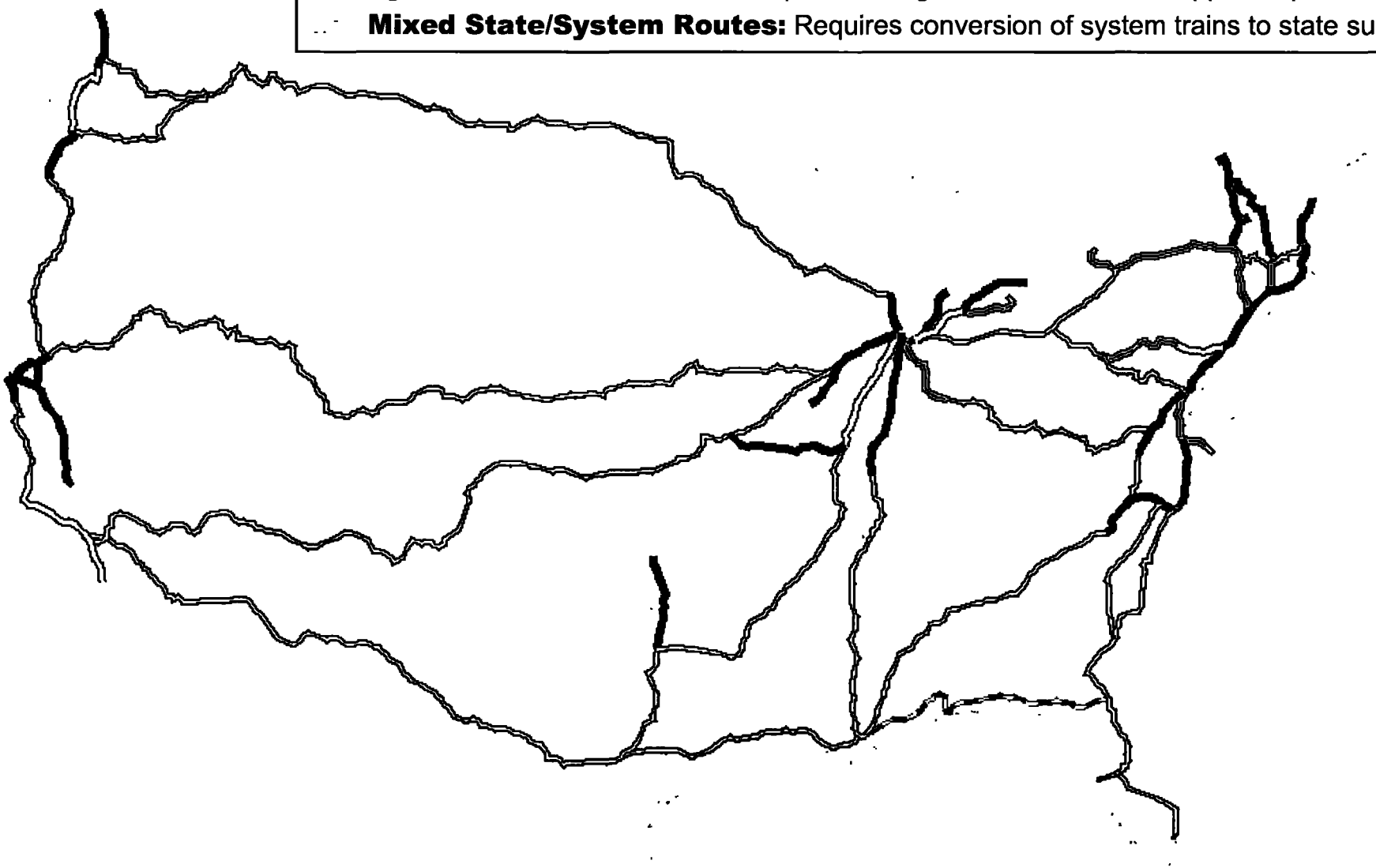
Corridor Services – Impacted Routes

NEC Spine: Excluded from Section 209

State Supported Routes: Require consistent agreements under Section 209

System Corridor Routes: Require new agreements, no state support in place

Mixed State/System Routes: Requires conversion of system trains to state support



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Coming up next...

- Understanding Amtrak Performance Tracking (APT)

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Exhibit D

U.S Department of
Transportation
**Federal Railroad
Administration**

Methodology for Determining the Avoidable and Fully Allocated Costs of Amtrak Routes

Volume I, Main Report

Office of Railroad
Development
Washington, DC 20590

Report to Congress 2009

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U.S. Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Ave. SE
Washington, DC 20590

December 15, 2009

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Consolidated Appropriations Act, 2005, Public Law 108-447 ("the Act"), authorized the Secretary of Transportation "to retain a consultant . . . to develop . . . a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The FRA tasked the Volpe National Transportation Systems Center to collaborate closely with Amtrak in developing the cost accounting methodology referenced in the Act, and FRA's Office of Passenger and Freight Programs also provided significant input and oversight to the effort.

I am pleased to submit a report that describes FRA's recommended methodology developed in accordance with this requirement. Subsequent reports, to be submitted by Amtrak in accordance with Public Law 108-447, will document the results of the methodology's application on a route-by-route basis. I hope that the information contained in the enclosed report will assist the Committee in its work.

Identical letters have been sent to the Ranking Member of the Senate Committee on Appropriations, and to the Chairman and Ranking Member of the House Committee on Appropriations, the House Committee on Transportation and Infrastructure, and the Senate Committee on Commerce, Science, and Transportation.

Sincerely,

Joseph C. Szabo

Enclosures

U.S. Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Avenue, SE
Washington, DC 20590

December 15, 2009

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Senator Cochran.

The Consolidated Appropriations Act, 2005, Public Law 108-447 ("the Act"), authorized the Secretary of Transportation "to retain a consultant . to develop a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The FRA tasked the Volpe National Transportation Systems Center to collaborate closely with Amtrak in developing the cost accounting methodology referenced in the Act, and FRA's Office of Passenger and Freight Programs also provided significant input and oversight to the effort

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Sincerely,

Joseph C. Szabo

Enclosures

U S Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Avenue, SE
Washington, DC 20590

December 15, 2009

The Honorable David R. Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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Joseph C. Szabo

Enclosures

U.S. Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Avenue, SE
Washington, DC 20590

December 15, 2009

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Lewis:

The Consolidated Appropriations Act, 2005, Public Law 108-447 ("the Act"), authorized the Secretary of Transportation "to retain a consultant . . . to develop . . . a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The FRA tasked the Volpe National Transportation Systems Center to collaborate closely with Amtrak in developing the cost accounting methodology referenced in the Act, and FRA's Office of Passenger and Freight Programs also provided significant input and oversight to the effort.

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Sincerely,

Joseph C. Szabo

Enclosures

U S Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Avenue, SE
Washington DC 20590

December 15, 2009

The Honorable Kay Bailey Hutchison
Ranking Member
Committee on Commerce, Science and Transportation
United States Senate
Washington, DC 20510

Dear Senator Hutchison:

The Consolidated Appropriations Act, 2005, Public Law 108-447 ("the Act"), authorized the Secretary of Transportation "to retain a consultant . . . to develop . . . a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The FRA tasked the Volpe National Transportation Systems Center to collaborate closely with Amtrak in developing the cost accounting methodology referenced in the Act, and FRA's Office of Passenger and Freight Programs also provided significant input and oversight to the effort.

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Sincerely,

Joseph C. Szabo

Enclosures

Declaration of Maximilian R. Johnson - Exhibit D

U S Department
of Transportation

**Federal Railroad
Administration**

Administrator

1200 New Jersey Avenue SE
Washington, DC 20590

December 15, 2009

The Honorable John D. Rockefeller, IV
Chairman
Committee on Commerce, Science and Transportation
United States Senate
Washington, DC 20510

Dear Mr. Chairman.

The Consolidated Appropriations Act, 2005, Public Law 108-447 ("the Act"), authorized the Secretary of Transportation "to retain a consultant . . . to develop . . . a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The FRA tasked the Volpe National Transportation Systems Center to collaborate closely with Amtrak in developing the cost accounting methodology referenced in the Act, and FRA's Office of Passenger and Freight Programs also provided significant input and oversight to the effort.

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Sincerely,

Joseph C. Szabo

Enclosures

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13 ABSTRACT (Maximum 200 words)

The Federal Railroad Administration tasked the Volpe Center with developing a methodology for determining the avoidable and fully allocated costs of Amtrak routes. Avoidable costs are costs that would not be incurred if an Amtrak route were discontinued. Fully allocated costs are the total costs of operating a route, including operating, marketing, general and administrative, and capital costs. The methodology was developed in cooperation with Amtrak staff and is being implemented within Amtrak's new Amtrak Performance Tracking (APT) system. This report describes the methodology for determining Amtrak's avoidable and fully allocated costs.

Challenges faced in developing the methodology included how to allocate shared costs that cannot be directly linked to single trains, how to spread high-level costs, such as general and administrative costs, how to distribute costs to Amtrak's ancillary businesses, how to estimate and allocate capital costs given Amtrak's history and structure, and how to estimate avoidable costs given record keeping limitations and the fact that many Amtrak costs are shared.

The methodology will provide improved estimates of avoidable and fully allocated costs as compared to Amtrak's current cost allocation system. It simplifies the cost allocation rules, incorporates Amtrak's ancillary businesses in the allocation process, and increases transparency.

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Executive Summary

Background

The Consolidated Appropriations Act, 2005 (Act) authorized the U.S. Secretary of Transportation "to retain a consultant ... to develop ... a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Act further specified that "Amtrak shall apply the methodology in compiling an annual report to Congress...." The Federal Railroad Administration (FRA) is responsible for meeting the requirements of the Act and tasked the Volpe National Transportation Systems Center (Volpe) with developing the Amtrak cost accounting methodology.

This report describes FRA's recommended methodology for determining both Amtrak's Avoidable Costs and its Fully Allocated Costs as required by the Act. A more detailed explanation of the two cost terms can be found in the main body of the report, but a suitable general understanding of these terms is provided in the following definitions:

- **Avoidable Costs** are estimates of the cost savings that would occur if a single Amtrak route were eliminated.
- **Fully Allocated Costs** are the portion of total costs recorded on Amtrak's income statement that best represent an equitable share for a single Amtrak route.[1]

Challenge

The National Railroad Passenger Corporation (Amtrak) is a large, complex enterprise focused on the operation of intercity passenger trains in the U.S. It operates as many as 315 trains per day on more than 43 routes, carrying an average of 70,000 daily passengers. Amtrak has more than 18,000 employees and had FY 2007 revenues of $2.2 billion, which included intercity passenger revenues, revenues from related businesses, and state capital payments. Amtrak's revenues would place it at number 819 on the 2007 list of Fortune 500 companies.

In addition to performing the full range of functions and activities required to operate the National Train System (NTS), Amtrak engages in related ancillary business that include:

- Operating commuter railroad services under contract.
- Providing rail infrastructure access to commuter agencies and freight railroads,
- Performing rail services for other rail operators, both commuter agencies and freight railroads, on a reimbursable basis, and

[1] Although this definition is useful as the a basic concept for the intended measure of Fully Allocated Costs, the actual methodology defined in this report varies from this strict definition in that it substitutes a synthetic capital charge for the depreciation and interest expense included on the income statement.

- Managing and leasing of commercial real estate.

The size and complexity of the Amtrak enterprise pose many challenges to defining methods for allocating its costs to routes and estimating their avoidability—the focus of this report. First, many of the activities involved in operating trains[2] cannot be directly linked to a single train or route. For example, train yard activity, such as breaking up, making up, and positioning trains in the yard, cannot be economically linked and recorded to individual trains. Further, train yard management and supervision, by its nature, is a shared cost, and therefore a specific method to apportion these shared costs must be selected. Second, in many cases, activities and their costs are local in scope and should not be allocated to the entire national train system. The cost allocation method should somehow distribute local costs only to the relevant routes utilizing the local resource and broader shared costs both to the NTS and also to the ancillary businesses where appropriate.

At a higher corporate level, various general and administrative functions, such as maintaining financial records, running various computer systems, providing human resource services, and executive management, are necessary to operate the enterprise. These activities are even further removed from the operation of individual trains, and their costs, in addition to being allocated to intercity passenger routes, must also be allocated to the various ancillary businesses. Because the ancillary businesses usually are not integrated with the operations of the NTS, the activity measures typically used in the cost allocation process for trains are not available, and alternative procedures must be developed.

As specific functional areas of the Amtrak enterprise are considered, other costs allocation issues are confronted. Among them are determining a sensible and appropriate way to treat capital costs given Amtrak's corporate history and structure, and the public financial contributions to the corporation. In the case of fuel, the nature of the operation and record keeping make it difficult and costly to identify the actual fuel costs of a specific train. In the case of equipment maintenance costs, the allocation method must recognize that outside of certain services using dedicated equipment, such as the Acela Express and the Cascades Route, an individual piece of equipment can generally be used on multiple routes.

Estimating the expected Avoidable portion of Fully Allocated Costs due to the elimination of a route is similarly challenging due to the practical limitations of record keeping and the fact that many costs are shared. In addition, the methodology for estimating Avoidable Costs must take into account potential changes to Amtrak's organization, both in the short and longer term, and contractual labor protection provisions applicable to employees whose jobs are eliminated due to service reductions.

Overview of Methodology

As with all large public corporations, Amtrak has in place accounting systems and procedures for recording and reporting its expenditures and receipts, and its financial reports are audited by a public accounting firm. Thus, its basic financial data can be considered a sound and suitable

[2] As is explained more fully in the report, because routes are made up of two or more trains, all costs are first distributed to trains and then the costs for a route are summed for all trains making up that route.

basis for developing a cost-accounting methodology. All of Amtrak's expenditure transactions are recorded on its general ledger, known as the Financial Information System (FIS). As a result, FIS is the starting point for the cost accounting methodology recommendations in this report.

All FIS data records include, in addition to the transaction dollar amount, certain codes that further identify the type of transaction. These codes are key to classifying and analyzing expenditures for the purpose of the desired methodologies. As a first step, expenditures are sorted into:

- Operating expenses (allocated),
- Capital expenditures (added to assets and used to calculate the capital charge), and
- Other financial transactions (not Amtrak route operating costs, so not further considered).

Figure EX-1 illustrates this process for five hypothetical FIS transactions (FIS Expense1 to FIS Expense5). The items in parentheses under each expense "record" are the accounting classification codes recorded along with each transaction in FIS.

Some operating expenses are directly linked to specific trains or other ancillary businesses in FIS and can be "assigned" to those trains or businesses, but most are shared and must be allocated. The sum of assigned and allocated costs is Fully Allocated Costs as that term is defined in this report. Thus, operating costs are:

- Direct (assigned to trains or ancillary businesses[3]), and
- Indirect or Shared (allocated to trains or ancillary businesses).

Figure EX-2 illustrates the case of a direct expense (FIS Expense4) and shows that it is assigned directly to Train5 without any need for allocation. Each direct expense is assigned to one and only one train or other ancillary business.

Indirect or Shared expenses are split between:

- Trains that are part of Amtrak's National Train System
- Ancillary businesses

Allocation of Shared Costs

The primary focus of this report is to develop a methodology for estimating the Avoidable and Fully Allocated Costs of Amtrak Routes, i.e., the NTS, but costs are also allocated to the ancillary businesses.

[3] Whereas, for the purpose of conciseness, this report refers to costs being assigned or allocated to ancillary businesses, in many cases the methodology distributes costs at a more detailed level to individual customers (e.g., specific commuter agencies, freight railroads, and so on) similar to the manner in which costs are distributed to individual Amtrak trains

Figure EX-1: Allocation Methodology

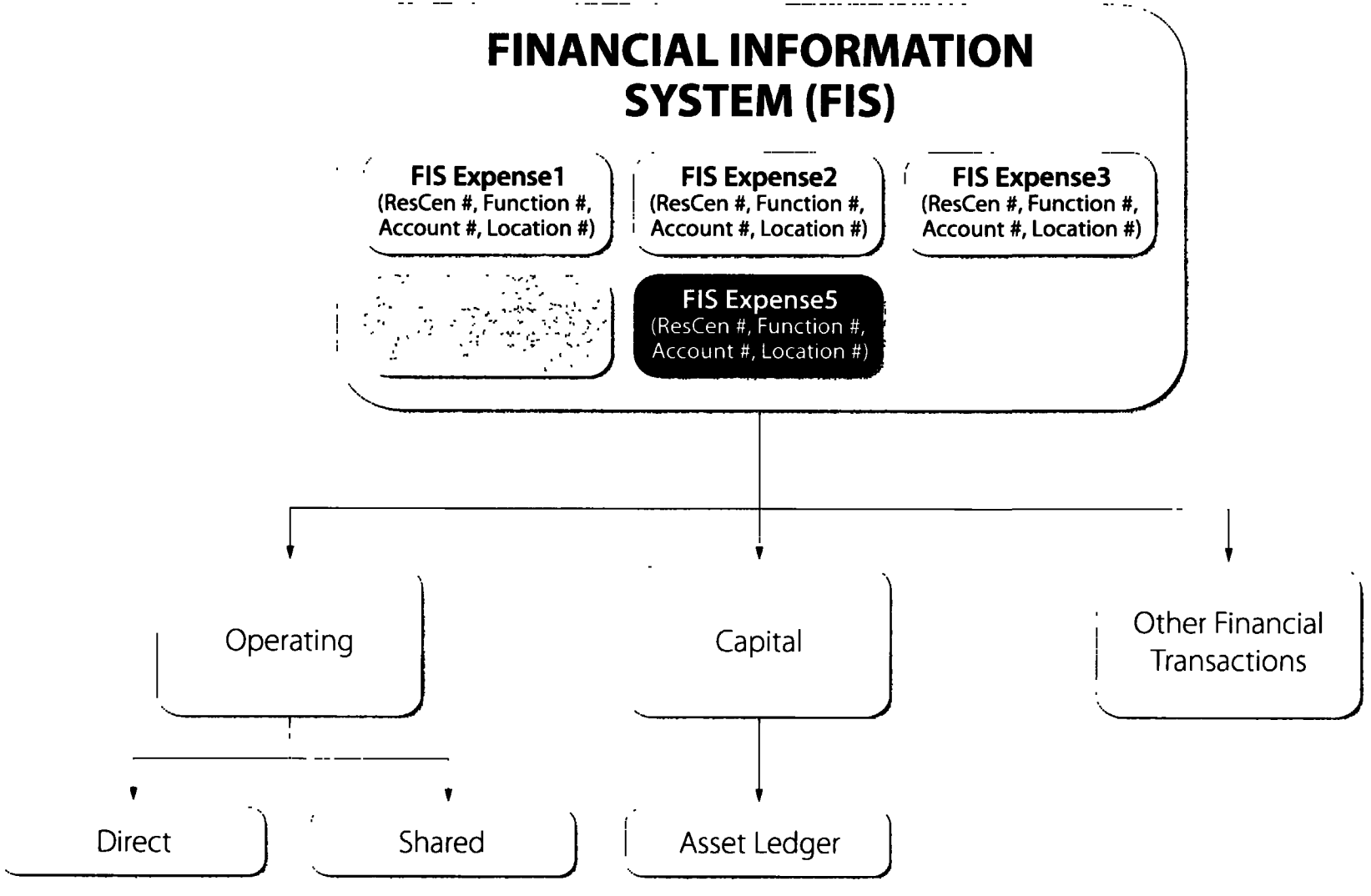
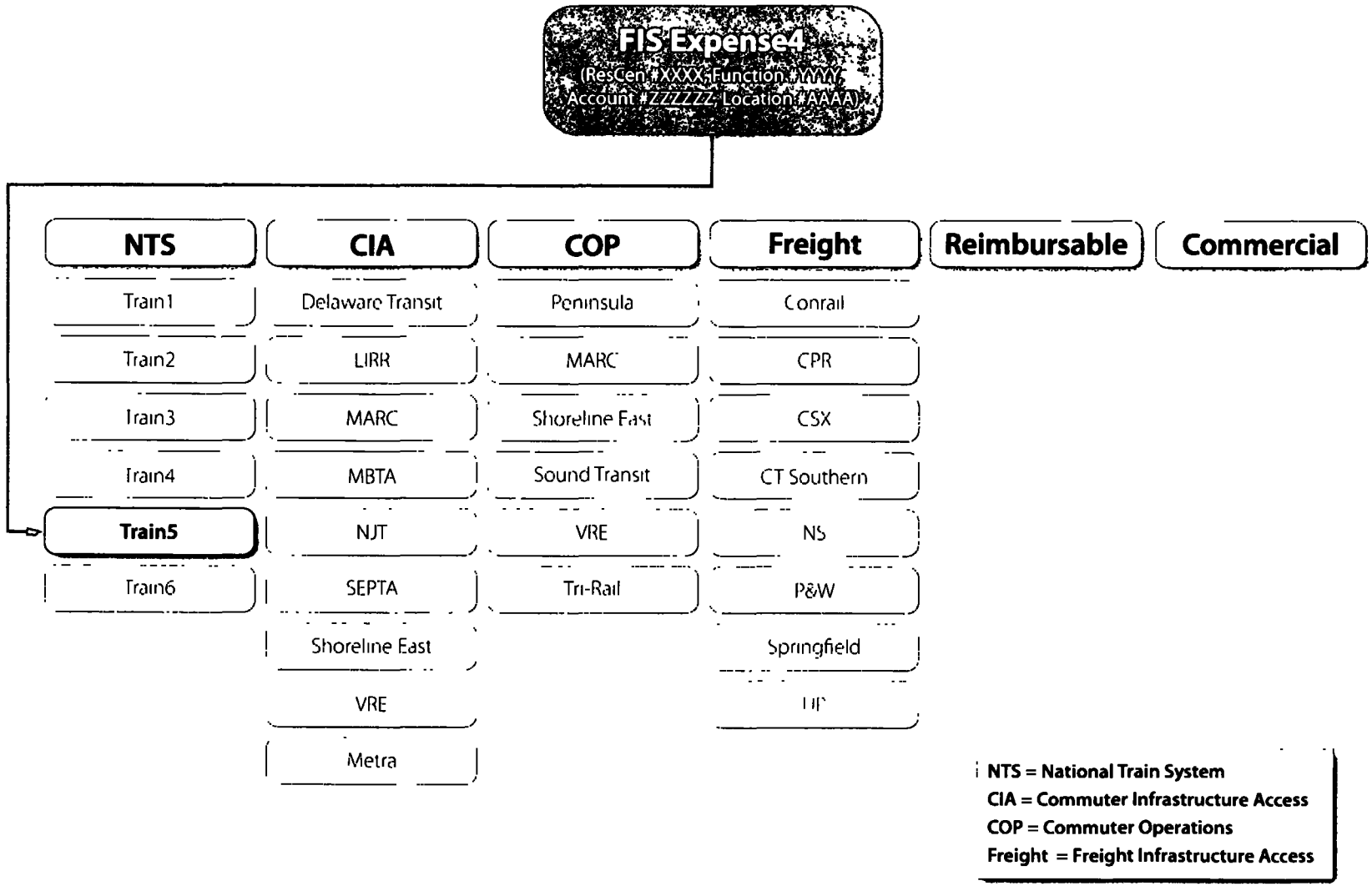
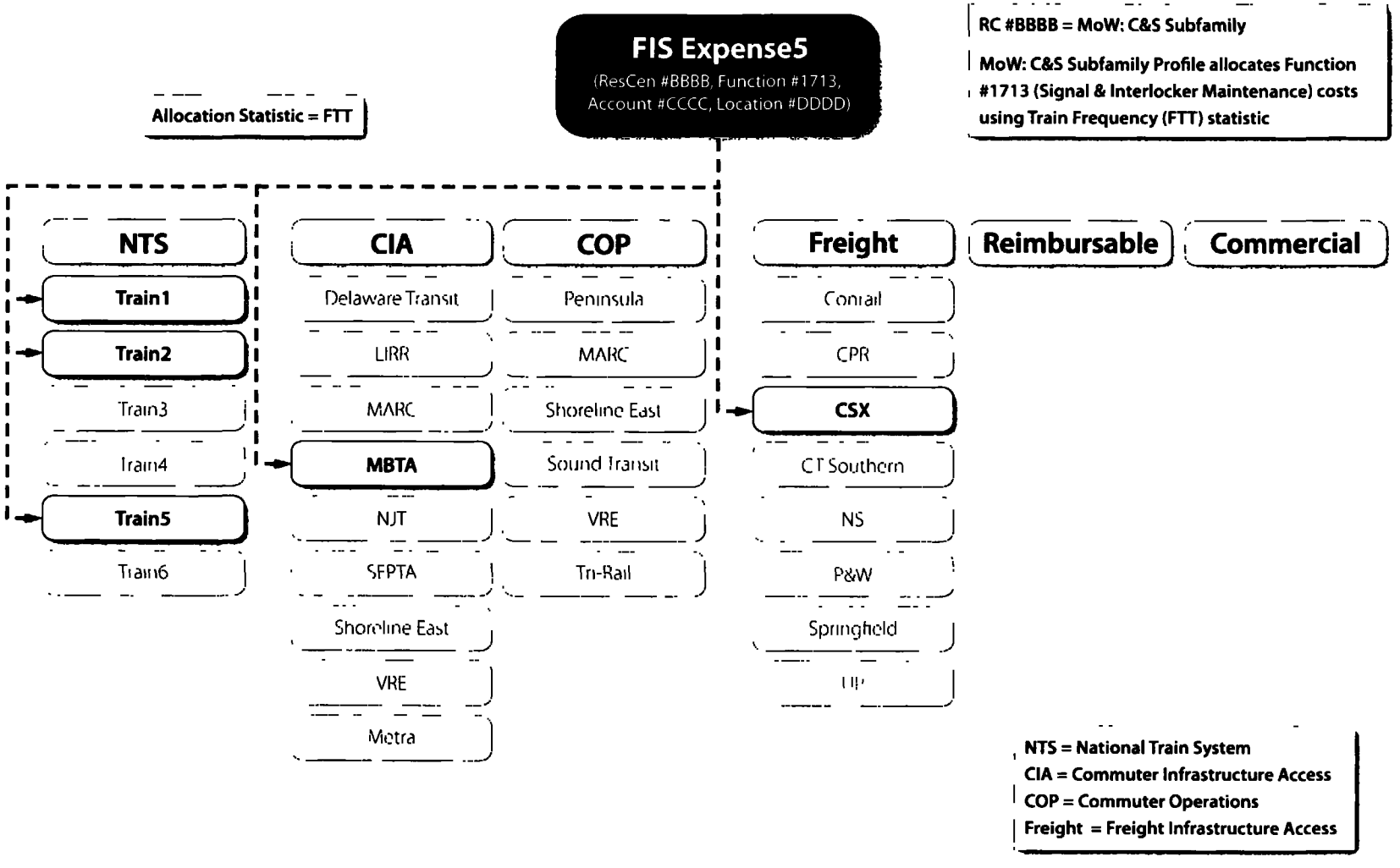


Figure EX-2: Allocation Methodology – Direct Cost Example



Declaration of Maximilian R. Johnson - Exhibit D

Figure EX-3: Allocation Methodology – Shared Cost Example



Declaration of Maximilian R. Johnson - Exhibit D

Amtrak has a hierarchical organizational structure composed of about 1,600 Responsibility Centers (ResCens). For this cost allocation methodology, Amtrak's ResCens are grouped, based on similarity of activities and functions, into nine broad cost Families. The cost Families are divided into 37[4] Subfamilies, and several Subfamilies are further divided into more detailed Subcategories. Examples of Families are Maintenance of Way (MoW), Transportation Operations, and General & Administrative. Examples of Subfamilies in the MoW Family include MoW-Track, MoW-Communication and Signals (MoW-C&S), and MoW Support.

A key characteristic of the cost allocation methodology is that the same rule or set of rules is applied to all ResCens performing similar activities. A "Profile" is defined for each Subfamily or Subcategory that defines the "rules" for assigning or allocating all expenditures incurred at ResCens within that Subfamily or Subcategory.

Cost allocation is performed in a series of steps or "rounds." In the first round, direct expenses are assigned and those shared expenses that most closely linked to train operations are allocated. One or more intermediate rounds, depending on the characteristics of a particular Subfamily, may also be required. The final round involves allocation of the highest level expenses, such as those incurred at ResCens in the General and Administrative Family.

The allocation methods for all rounds are similar and can be illustrated using the example of the MoW-C&S Subfamily. The MoW-C&S Subfamily is composed of ResCens responsible for maintaining the C&S systems within a geographical area, i.e., a section of right-of-way (ROW). To allocate expenses incurred at ResCens in a given Subfamily, the rules specified in that Subfamily's Profile are applied to all the ResCens in the Subfamily. In the case of the MoW-C&S Subfamily, Signal & Interlocker Maintenance expenses at a particular ResCen are allocated to Amtrak trains, commuter agencies, and freight railroads using the section of ROW for which that ResCen is responsible based on relative shares of total train frequency over that section. Thus, the rule involves specifying a type of expense (expenditures at MOW-C&S ResCens), a set of cost objects to which costs are allocated (in this case Amtrak trains, commuter agencies, and freight railroads), and an allocation statistic (in this case train frequency). Figure EX-3 illustrates the case in which a hypothetical shared MOW-C&S expense (FIS Expense5) would be allocated to trains 1, 2 and 5, and also to ancillary business customers MBTA and CSX.

This example shows that the methodology requires some common measure of ResCen activity (a "statistic") that is available across all users (cost objects) to allocate the shared expenses. When allocating expenses exclusively to trains, a train operating statistic, such as train frequency, labor hours, or total passenger miles, may be used to allocate expenses. When allocating expenses among NTS and non-NTS ancillary businesses, sometimes the most appropriate statistic is not available for some of the ancillary businesses. In such cases, various alternatives used include:

[4] Only 36 are used for cost allocation; the 37th provides a mechanism for treatment of expenses that are not considered costs under this methodology

- Employing multiple allocation rounds and splitting expenses between NTS and non-NTS ancillary businesses in the first round based on some statistic common to all Amtrak businesses, a detailed analysis, or professional judgment
- Using some relative measure of activity such as the total activity cost (from prior rounds)

An important part of the methodology development process was to consider the potential availability of allocation statistics that could be linked to specific cost objects at specific ResCens, especially for cases where a portion of expenses needed to be allocated to the ancillary businesses.

Each of the Subfamilies and Subcategories were the subject of a separate analysis leading to a well-defined allocation process. The main steps in the process were:

- Developing the hierarchal family structure
- Placing each of Amtrak's 1,600-plus ResCens into the appropriate Family-Subfamily-Subcategory
- Identifying the primary activities and corresponding FIS cost code combinations for each Subfamily[5]
- Determining to what train or ancillary businesses the expenses should be allocated, i.e., what "customers" are supported by the Subfamily's activities
- Identifying an appropriate and available statistic (or statistics) to use in allocating the various types of Subfamily or Subcategory expenses
- Selecting the appropriate allocation "level." In most cases expenses can be satisfactorily allocated at the ResCen level, but in a few cases this was found to result in incorrect allocations and, instead, expenses needed to be allocated at a regional or national level.

Treatment of Capital Costs as Part of Fully Allocated Costs

Any sizable enterprise, and especially a railroad with its rolling stock and fixed infrastructure, has expenditures for items that are long-lived relative to the typical monthly, quarterly, and annual financial reporting periods. These expenditures are referred to as capital and are given special treatment in the reporting of operating costs under generally accepted accounting procedures (GAAP). Under GAAP, rather than being recorded in the time period in which they are actually incurred, capital expenditures are annualized over the expected time period for which the underlying assets are expected to contribute to the production of output (in the case of Amtrak, the output is mostly the operation of trains). The annualized charge or cost is referred to as depreciation and is used in the income statement calculation of profit or loss from continuing operations. In addition, the interest expense on funds borrowed to finance capital expenditures

[5] As noted previously, in some cases the analysis occurred at the Subcategory level. However, since the overall process is the same for Subfamilies and Subcategories, the latter does not require separate treatment in this methodology overview.

are shown on the income statement and figure into the calculating the total net profit or loss of the enterprise.

Significant effort was made to determine how best to incorporate the cost of capital into Amtrak's Fully Allocated costs. Consideration was given to the history of public sector contributions towards Amtrak capital expenditures. Amtrak's use of borrowings (and hence its incurring of interest expenses) for the acquisition of only certain subsets of its capital assets, and the use of leases and sale-leaseback transactions for some capital assets. It was decided that simply allocating GAAP depreciation and interest to routes and other ancillary businesses did not yield a contribution to Fully Allocated Costs for a particular route that accurately reflected that route's relative usage of capital assets.

Instead, the decision was made to replace depreciation and interest with a synthetic capital charge, which provides a more representative measure of the resource cost of all capital equipment and property – regardless of how financed – currently being used by Amtrak to produce its various services and outputs. The synthetic capital charge is an annualized value based on the original acquisition costs of the assets and the underlying opportunity cost of capital as a production resource as reflected in the U.S. Treasury long term borrowing rate. Since Amtrak's data systems do not link capital assets to ResCens in specific areas, procedures needed to be developed to link such assets to the outputs and services whose production they support.

The development and inclusion in APT of a methodology for calculating, on a sound economic basis, a capital charge to be allocated to Amtrak route and other businesses in both the Fully-Allocated and Avoidable Cost aspects of this methodology, implies no recommendation regarding the practical application—for example, in the negotiation and pricing of services that Amtrak performs for other entities—of the charges thus calculated. The capital charges, like other topics covered herein, are presented solely for the sake of objectively and comprehensively responding to this report's Congressional mandate, thereby advancing the state-of-the-art in the allocation and analysis of the costs of intercity passenger rail service.

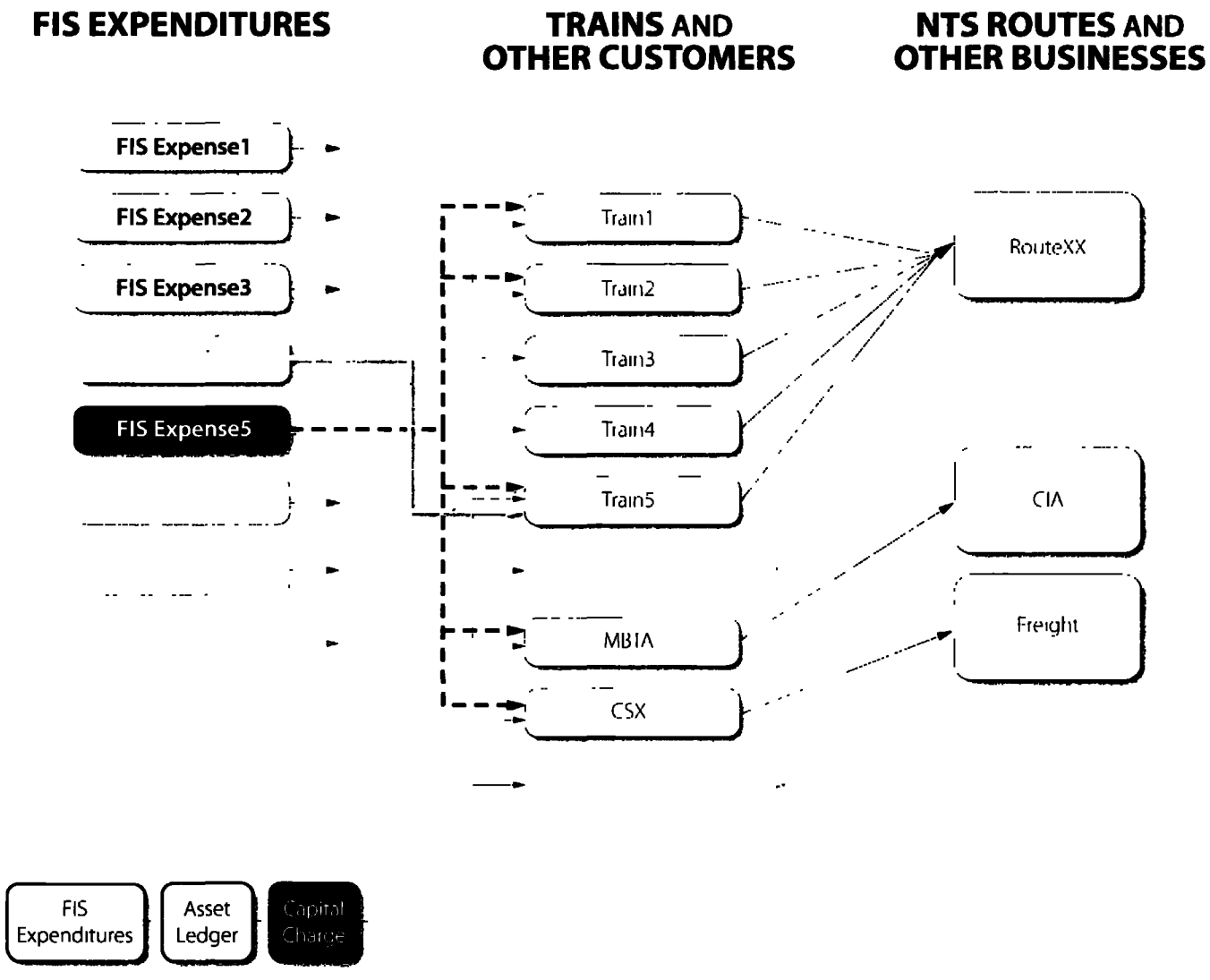
Figure EX-4 summarizes the process for calculating Fully Allocated Costs. In addition to the cases covered in Figure EX-2 (FIS Expense4) and Figure EX-3 (FIS Expense5), it illustrates the conceptual data flow for converting asset acquisitions in prior periods to capital charges allocated to trains and other customers. It also shows the final step in which costs are aggregated to Amtrak's Routes and ancillary businesses.

Estimation of Avoidable Costs

In developing the method for estimating the avoidable costs of each Amtrak route, Subfamilies were first placed in one of four groups based on the relative avoidability of their costs:

- Avoidable
- Fixed
- Mixed-Statistical
- Mixed-Detailed

Figure EX-4: Aggregation of Fully Allocated Costs



Expenses at ResCens in some Subfamilies would be completely (100 percent) Avoidable for a particular route if that route were eliminated and these expenses are classified as Avoidable. One example is the Subfamily used to record fuel costs. Since only the direct expenditures on fuel are included in this Subfamily, these costs would be avoided if operations for a route were discontinued. Expenses recorded in some other Subfamilies would remain even if any particular route was eliminated and these are classified as Fixed. Examples are the various general management and support Subfamilies, mostly in the General and Administrative Family.

Those Subfamilies that lie between completely Fixed or completely Avoidable are considered Mixed. Statistical analysis was used where possible to estimate the Avoidable Costs of Amtrak routes for such Subfamilies. Using regression analysis of panel data, equations were estimated that used train operating statistics to explain the level of ResCen costs both in the short and long terms. The resulting statistical coefficients are used to estimate the costs at a ResCen both with and without a particular route, and the sum of such calculations over all relevant ResCens results in the Avoidable Cost for the Route

Where the data did not support the use of statistical techniques, other types of analysis and professional judgment were used to investigate and determine the Avoidable Costs of some Mixed Subfamilies—those referred to as Mixed-Detailed. Literature reviews and interviews with Amtrak personnel and industry officials led to a series of Avoidable Cost approaches for these Subfamilies. Often the approach taken was to consider the Subfamily's costs at a disaggregated level using accounting codes to identify the type of costs. Rules were then developed for these more disaggregated costs—treating some as completely Avoidable, some as completely Fixed, and some as partially Avoidable, using either a simple percentage or equation based on other analysis.

In calculating the Avoidable Costs of an Amtrak route, two time periods were investigated. Short-run Avoidable Costs are those costs that would no longer be incurred one year after a Route is eliminated, in effect providing an estimate of what costs would remain on the first day of the second year. Many costs are Avoidable in the short term such as fuel, materials, supplies, and some labor. Long-term Avoidable Costs are those costs that would no longer be incurred five years after a Route is eliminated, i.e. providing an estimate of what costs would remain on the first day of the sixth year. The long-term period gives Amtrak management time to restructure the organization, dispose of assets not needed, and shift resources to more efficiently provide the new level of service.

The Avoidable Cost estimation methods outlined above result in an expected savings assuming that Amtrak will reduce its use of resources commensurate with the reduced level of service, and realize financial savings proportionate to the resource savings. However, labor contracts covering most Amtrak operating personnel contain labor protection provisions providing for payments and/or other protections for covered employees in the event that service is reduced. The payments vary both in amount and duration based on employee years of service. The effect of such labor protection payments is to reduce Avoidable Costs. The Avoidable Cost methodology includes adjustments for the labor protection payments based on data on staffing levels, employee years of service and routes served for each onboard service (OBS) and trainmen and enginemen (T&E) crew base.

General Assessment and Recommendations

The new methodology, when properly implemented, will provide a much improved estimate of Fully Allocated and Avoidable Costs over that provided by Amtrak's current Route Profitability System (RPS). This methodology, developed in concert between Volpe and Amtrak staff, is being implemented within Amtrak's new cost accounting system, to be known as Amtrak Performance Tracking (APT). The new methodology will simplify the cost allocation rules, incorporate Amtrak's ancillary businesses in the cost allocation process, and increase transparency among system users, resulting in an improved cost allocation system.

Many aspects of the methodology will be automatically or easily maintained and updated as Amtrak's organization evolves, but in several areas there is a need for a more systematic and substantial review and updating at least every two years. The areas in need of such review and updating are identified in the report sections describing the methodology details.

As with any complex cost accounting system, there is always room for still further improvement. There is also a need for some supplemental efforts to make several technical refinements to the methodology—or that are required to guide its implementation in APT—that could not be accomplished prior to the preparation of this report. These methodology refinements are not expected to have a sizable effect on the quantitative results.

Finally, at press time for this report, one methodological area remained where the development effort was incomplete. That area involved the avoidability of capital charges (Section 8.7.1). Accordingly, it is possible that the actual implementation of this subject in APT will differ somewhat from the recommendations of this report. Also, as Amtrak continues to translate these methodologies into the elements of its APT system, additional discrepancies of a detailed nature may arise between this report's recommendations and the implementation of APT.

Acronyms

ACC	Avoidable Cost Code
ACK	Account Code Key
ALU	Acela Units Used
Amtrak	National Railroad Passenger Corporation
APT	Amtrak Performance Tracking
B&B	Bridges and Buildings
BUU	Baggage Units Used
CAE	Customer Activity Expense
CC	Capital Charge
CEP	Customer Electric Percentage
CETC	Centralized Electric and Traffic Control
CIA	Commuter Infrastructure Access
CNOC	Consolidated National Operations Center
COP	Commuter Operations
CRF	capital recovery factor
CRH	Crew Hours
C&S	Communications and Signal
CUS	Chicago Union Station Company
CUT	Car Unit Trips
DLH	Dining Labor Hours
DLU	Diesel Locomotive Units Used
DOT	Department of Transportation
DPUF	Diesel Power Usage Factor

DRV	Dining Car Revenues
ET	Electronic Traction
ELU	Electric Locomotive Units Used
EPUF	Electric Power Usage Factor
EUM	Electric Locomotive Unit Miles
FCR	First Class Riders
Fingate	Financial Gateway
FIS	Financial Information System
FRA	Federal Railroad Administration
FTT	Train Frequency
FY	Fiscal Year
G&A	General and Administrative
GAAP	Generally Accepted Accounting Principles
GEU	General Electric Locomotive Units Used
GLC	Gallons Consumed
GTM	Gross Ton Miles
HSR	High-Speed Rail
ICC	Interstate Commerce Commission
IFS	Integrated Financial System
LMS	Labor Management System
MDC	Mechanical Direct Costs
MoE	Maintenance of Equipment
MOLAP	Multidimensional Online Analytical Processing
MoW	Maintenance of Way
MoW-ET	Maintenance of Way Electric Traction

MWDC	Maintenance of Way Direct Costs
NEC	Northeast Corridor
NJT	New Jersey Transit
NON	no statistic
NTS	National Train Service
OBS	Onboard Services
OLH	On Board Labor Hours
OMS	Operations Management System
PAS/ALMS	Passenger Accounting System/Automated Lift Match System
PRIL	Passenger Railroad Insurance Limited
PRV	Total Passenger Revenue
PSL	Penn Station Leasing
PTT	Paperless Time Ticket
RC	Responsibility Center
ResCen	Responsibility Center
RPS	Route Profitability System
RR	Railroad
RSCC	Reservation Sales Call Center
RSO	Usage Time for Reservations Sales Office Operations
SQ	Stat Qualifier
SSSO	Security Strategy & Special Operations
STB	Surface Transportation Board
TAC	Total Activity Cost
TAS	Travel Agent Sales
TBD	Total Boards and Deboards

TCM	Total Car Miles
T&E	Trainmen and Enginemen
TEH	Trainmen and Enginemen Hours
TLH	Trainmen Labor Hours
TMC	Total Mechanical Cost
TPM	Total Passenger Miles
TRD	Total Riders
TSL	30th Street Limited. L.P.
TTE	Total Train Expense
TTM	Total Train Miles
TUM	Total Unit Miles
TUS	Train Unit Statistics
TUT	Total Unit Trips
UM	Unit Miles
UU	Units Used
VRE	Virginia Rail Express
Volpe	Volpe National Transportation Systems Center
WBD	Weighted Total Boards and Deboards
WIP	Work in Progress
WMS	Work Management System
WTC	Washington Terminal Company

1 Introduction

1.1 Background

The Consolidated Appropriations Act, 2005 (Act) authorized the Secretary of Transportation "to retain a consultant ... to develop ... a methodology for determining the avoidable and fully allocated costs of each Amtrak route." The Federal Railroad Administration (FRA) is responsible for meeting this requirement. The Act further specified that "Amtrak shall apply the methodology in compiling an annual report to Congress...." FRA tasked the Volpe National Transportation Systems Center (Volpe Center) to closely collaborate with the National Railroad Passenger Corporation (Amtrak) in developing the cost accounting methodology referenced in the Act.

The Volpe Center and Amtrak jointly developed the methodology for the Fully Allocated Costs. Fully Allocated Costs are the total costs associated with operating an Amtrak Route, including both direct operating expenses, a portion of shared expenses, and a portion of corporate overhead expenses. The Volpe Center developed the methodology to estimate the Avoidable Costs of Amtrak routes, with assistance from Amtrak staff. Avoidable Costs are those that would cease if a particular Amtrak route were to be eliminated. The complex interrelationships among Avoidable and Fully Allocated Costs—combined with Amtrak's eventual need to implement the entire methodology in its accounting system—required the Volpe Center and Amtrak teams to work closely together to develop a coherent approach.

1.2 Objective

The overall objective of this effort is to develop, document, and implement a cost accounting methodology for determining and reporting the Avoidable and Fully Allocated Costs of each Amtrak Route. In addition, the Volpe Center was tasked to provide additional features for analyzing Amtrak's costs that provide value to Congress, FRA,[6] and Amtrak.

The recommended cost accounting methodology fulfills the Congressional mandate and provides additional features and value to both FRA and Amtrak. Improved and timelier cost information will be generated on Amtrak's train routes. Cost information will be provided on Amtrak's ancillary businesses that will be useful not only to Amtrak management, but also to other stakeholders, including Congress, the U.S. Department of Transportation (DOT), and States that contract with Amtrak for train service.

1.3 Scope of Report

This report describes the new cost accounting methodology and rules for determining Amtrak's avoidable and Fully Allocated costs required by the Act. It provides background information on Amtrak's current accounting system and methodology for reporting costs, presents an overview

[6] While FRA will be the primary user of the information generated by the cost allocation methodology within the Department of Transportation, other parts of the Department including the Office of the Secretary and Inspector General will also be users of data generated by the methodology

of the general principles of cost allocation, describes the proposed approach for estimating the Fully Allocated and Avoidable Costs of Amtrak routes and other businesses, and describes the proposed methodology and rules for allocating various categories of Amtrak costs and determining the avoidability of those costs. The report concludes by providing recommendations for further improvements to Amtrak's cost reporting capabilities.

Appendices present supplementary information relating to the proposed methodology:

- Appendix A: Family Profiles, lists the general allocation rules for each Amtrak Performance Tracking (APT) Family and Subfamily.
- Appendix B: Family Cost Distribution, shows the total of Amtrak's expenses applicable to each APT Subfamily (fiscal year (FY) 2007).
- Appendix C: Glossary.
- Appendix D: Statistics and Definitions, provides an overview of statistics used in the recommended allocation and avoidable cost estimation methodologies.
- Appendix E: Synthetic Capital Charge describes the methodology for estimating the capital charge.
- Appendix F: List of Interviewees, lists individuals participating in requirements analysis meetings and interview participants.
- Appendix G: Amtrak Crew Bases, lists onboard services (OBS) and train and engineman (T&E) crew bases and the routes that they support.
- Appendix H: Definition and Use of the TAC and CAE Statistics.

An ongoing parallel effort by Amtrak to implement this methodology, using a new cost allocation system, is nearing completion; a brief description of this effort is also provided in this report.

2 Current Amtrak Cost Accounting and Reporting Systems

The Route Profitability System (RPS) is Amtrak's current cost accounting and reporting system for Fully Allocated costs. This section describes RPS and other Amtrak systems relevant to the cost accounting methodology.

2.1 RPS Overview

RPS is used to calculate the costs and revenues of each Amtrak route and to estimate its resulting surplus or deficit. Amtrak describes RPS as "a mainframe system that, based on feeds from [the general ledger] and other systems, converts the departmental reporting of profit and loss into a train profit and loss." RPS is both a methodology and a process for estimating train and route level cost and revenue data and is also a database with a post-processor for analysis and report generation.

2.2 Revenue and Cost Distribution

RPS estimates the profitability of Amtrak routes by distributing historical cost and revenue data from the company's general ledger system to individual trains, and then aggregating train level data to the route level. Revenue and cost data are distributed to trains in two ways: (a) direct assignment and (b) allocation.

2.2.1 Direct Assignment

Revenue is associated with individual trains; this information is provided to RPS at the train level. Likewise, certain types of costs are coded within Amtrak's general ledger with specific train numbers. Revenues and costs identified with train numbers are *directly assigned* to the relevant trains.

2.2.2 Cost Allocation

Most Amtrak costs are not coded to specific trains and instead must be *allocated* to trains.

Costs that are not linked to a particular train are allocated to trains proportionally using allocation variables. These variables are typically operating or other types of statistics from another Amtrak information technology system, such as the Operations Management System (OMS) or Passenger Accounting System/Automated Lift Match System (PAS/ALMS). For a cost to be correctly allocated in RPS, it must be correctly coded in the general ledger and also be allocated to trains using an appropriate allocation statistic. RPS is not a static system. Its cost allocation rules are periodically updated to reflect changes in Amtrak's operations and to improve the allocation methodology.

RPS allocates general ledger transactions to Amtrak trains. To the extent that the general ledger captures all Amtrak expenses and to the extent that those expenses are properly assigned or

allocated. RPS costs provide a reasonable estimate of the Fully Allocated costs for Amtrak routes.

2.2.3 *RPS Usage*

Although RPS calculates Fully Allocated costs, making it useful for examining the profitability of specific routes, for reporting historical route profitability, and for determining costs for state-supported services, it currently does not calculate avoidable costs.[7] RPS is not considered an appropriate tool for analyzing route and service adjustments. In recent years, Amtrak has begun reporting "FRA-defined costs." FRA-defined costs are groups of cost categories roughly corresponding to route costs, and therefore likely to disappear if a particular route were eliminated. Although FRA-defined costs have been used as a proxy for route level avoidable costs, they are considered a temporary measure and not a permanent solution to the issue of identifying avoidable costs for the purposes of managerial decisionmaking and Federal Government oversight.

RPS estimates and reports Fully Allocated costs monthly. Costs are allocated to trains and the train level cost data is aggregated to the route level. RPS also assigns each allocated cost to an "RPS Line," allowing Amtrak to report the costs associated with a particular train or route by broad cost category.

RPS also separates and reports costs as either "above-the-line" or "below-the-line." Above-the-line costs are costs associated with Amtrak's core national train service (NTS) business that are distributed to Amtrak trains. Below-the-line costs, on the other hand, are costs not associated with Amtrak's core business. Costs, directly associated with Amtrak's other businesses including its commuter operations and reimbursable businesses, are considered below-the-line in RPS. However, many categories of overhead-type expenses exist that the current RPS distributes exclusively among train routes that more properly should also be shared by the ancillary businesses. Other above-the-line costs are the depreciation and interest expenses listed in the monthly RPS report submitted by Amtrak to FRA. In contrast, the RPS tables included in the Monthly Performance Reports posted by Amtrak on its Web site do not distribute depreciation and interest to NTS trains or ancillary businesses but rather report them as lump-sum items that reconcile the RPS dollar amounts with the total of all expenses appearing on Amtrak's consolidated corporate income statements.

2.3 RPS Interfaces

RPS interfaces with several other information systems at Amtrak.

[7] In 1993, the system also calculated the long-term avoidable costs, the short-term avoidable costs, and the fixed costs for routes, but there were doubts about the accuracy of the underlying methodology and the procedures have not been maintained

2.3.1 Financial Information System (FIS)

Transactional data on Amtrak's revenues and costs comes from Amtrak's general ledger or Financial Information System (FIS), which classifies and records all company financial transactions. FIS is used to produce Amtrak's audited financial statements and is a comprehensive and accurate source of transactional data suitable for obtaining historical revenues and costs when estimating Amtrak route profitability. Each financial transaction in FIS is coded according to the following characteristics:

1. *Responsibility Center (ResCen or RC).* The organizational unit within Amtrak responsible for incurring the expense.
2. *Business Line.* The specific line of business, sub-business, customer, or product line associated with a revenue or expense.
3. *Account.* The type of expense.
4. *Function.* The nature of the activity or type of work performed.
5. *Location.* The physical location associated with the transaction.

The combination of these five codes is called the Primary Account Key also known as the Account Code Key (ACK). The codings associated with each transaction, in particular Function, ResCen, and Account, are key elements in how each transaction is allocated within RPS.

2.3.2 Other Interfaces

RPS interfaces with and receives statistical data from several statistical systems and databases in addition to FIS. Most statistical data are calculated externally and provided to RPS while some calculated within the system. In addition, most statistics are calculated at the train level while others are calculated at other than the train level such as Total Boards and Deboards (TBD), which is calculated at the station level.

The primary source of train operating statistics is OMS, a mainframe-based system that calculates and maintains statistics such as train mileage, vehicle trips, and frequency. The Train Unit Statistics (TUS) system is a DB2 mainframe table that captures and stores data on equipment moves by city pair from OMS. Data from TUS are used by RPS to calculate certain important statistics on equipment usage. The PAS/ALMS system is the source of data on passenger boards and deboards at stations and flows into RPS through the Amtrak's Revenue Data Warehouse. Onboard labor hours (OLH) data are coded directly to individual trains in Amtrak's payroll system and flow into RPS through its interface with FIS.

RPS currently resides on a mainframe computer and is accessed through a post-processing system called Financial Gateway (Fingate). Fingate provides access to data from several Amtrak systems, including RPS and FIS and allows users to prepare summary level reports and to analyze and view data at a detailed level. Fingate uses a multidimensional online analytic processing (MOLAP) database and a set of Microsoft Excel extensions that allow MOLAP data to be analyzed using Excel. Not all RPS data is available through Fingate due to Excel capacity limitations and Amtrak staff must sometimes access RPS directly through the mainframe system. In practice, however, very few Amtrak staff use the mainframe system, thus limiting their ability to fully utilize the outputs of RPS.

3 From RPS to Amtrak Performance Tracking

3.1 Summary

The APT system will replace RPS and will implement the methodology described in this report. APT is the culmination of efforts by Amtrak, FRA, and Volpe to develop an improved methodology and a process for calculating and reporting Fully Allocated costs, Avoidable costs, and revenues for Amtrak routes and other businesses.

APT is an information technology system implemented and managed by the Financial Analysis and Systems Division within Amtrak's Finance Department. APT was developed through the synthesis of two parallel efforts to improve the availability of cost information at Amtrak. As noted in Section 1.0, FRA tasked Volpe to help the agency meet its legislative mandate of developing a methodology for determining the avoidable and Fully Allocated costs of each Amtrak route. In addition, Amtrak recognized the need to replace RPS with a system that was more robust and that would provide Amtrak management with more accurate and timely information to use in analysis, reporting, and decisionmaking.

3.2 Requirements Analysis

One of the first steps in developing the cost accounting methodology was to define the methodology requirements and identify the strengths and weaknesses of the allocation methodology used in RPS. Volpe staff interviewed various RPS stakeholders, including regular RPS users within Amtrak, other relevant Amtrak staff, and the staff at FRA who use RPS.[8] The interviews focused on RPS functionality, how each Amtrak department utilizes RPS, the strengths and weaknesses of RPS, and desired features of a modified or new cost accounting methodology.

3.2.1 Findings

The primary strength identified by Volpe was that in the majority of cases, RPS allocates FIS transaction expenses to trains and routes at a detailed level based on appropriate cost drivers. Because all expense data are obtained from FIS, RPS results reconcile with Amtrak's published financial statements.

The most important finding, and the most significant weakness of RPS from the perspective of FRA's Congressional mandate, is that RPS does not currently calculate and report avoidable costs by route as required by statute. Other RPS weaknesses expressed by various RPS stakeholders include:

- Resides on a mainframe computer making it difficult to access/maintain/update,
- Results are not transparent/explainable (RPS is perceived as a "black box"),

[8] Participants are listed in Appendix F

- Documentation is inadequate,
- Results are not accurate/reliable and vary inexplicably across periods,
- Allocation rules are not always internally consistent,
- Results are of limited use as a management tool,
- Does not allocate General and Administrative (G&A) costs to non-NTS businesses,
- Does not allocate infrastructure costs to non-Amtrak users of Amtrak owned infrastructure,
- "Below-the-line" costs are not allocated,
- Capital costs do not properly reflect opportunity cost of all capital equipment and property employed by Amtrak, and
- Some allocation rules are conceptually lacking.

Some of these points are unequivocally true factual statements but many are subjective judgments that might not reflect a majority view. Nevertheless, the unquestionable conclusion of the study was that RPS does not meet the needs of internal or external stakeholders and that a new cost accounting methodology is required that will (1) fulfill Amtrak's congressional mandate, (2) improve the real or perceived deficiencies to RPS, and (3) provide Amtrak, FRA, and other stakeholders with more accurate and timely information on Amtrak costs and assist in management decisionmaking.

Amtrak must also implement the new methodology within a short period of time, which means that the methodology has to use readily available information and be compatible with existing Amtrak data sources and information systems, such as FIS and Fingate. Finally, to ensure that the methodology will be used for more than just fulfilling Amtrak's annual reporting requirement to Congress, Volpe and FRA also had to obtain Amtrak's acceptance regarding the usefulness and validity of the methodology.

3.3 Amtrak Initiatives

Amtrak also has been working deliberately to develop an improved cost accounting system to facilitate improved decisionmaking among Amtrak management. Over the next several years Amtrak will implement several new accounting systems and processes, including the Integrated Financial System (known as IFS), a new managerial cost accounting system using SAP commercial software, for which Congress appropriated approximately $5 million, and a new activity-based budgeting process. Amtrak also recognizes the need to modernize RPS. Through the RPS Validation and the RPS System Rewrite Project, real and perceived weaknesses were corrected, the quality and timeliness of RPS results improved, and system functionality expanded.

3.3.1 RPS Validation

In 2006, Amtrak formed an RPS Working Group to plan and conduct an RPS validation to review and update the relationships or associations between Amtrak ResCens and trains and

routes listed in the RPS allocation rules. The objective was to enhance the credibility of RPS results and to improve communication between the Amtrak Finance Department and field operations. The validation focused on identifying and correcting errors in the current system, including validating operational information and procedures, making sure that operational changes had been incorporated into RPS rules, confirming the reasonableness of allocation statistics, and updating train pools. Amtrak staff also reviewed company data sources to identify all available allocation statistics, ensuring that RPS was using the best source of statistics, and to identify areas for future analysis and improvement, such as fuel and electric propulsion.

Even though the validation resulted in several improvements being made to existing RPS allocation rules, the allocation results were generally deemed to be reasonable and accurate. The validation effort also resulted in the decision to try to reduce and consolidate the current allocation rules in any successor to RPS.

3.3.2 RPS System Rewrite Project

Amtrak's second initiative was the RPS System Rewrite Project. Through this project Amtrak is implementing a new information system to allocate revenues and costs and to analyze the profitability of Amtrak's train and other businesses in a different software and hardware environment from the current RPS mainframe environment. The end result will be a client-server-based system supported by the Amtrak Finance Department. The decision to rewrite RPS using different software and hardware was based on various internal and external initiatives, including several flowing from Federal legislation. Amtrak management determined that an improved system similar to RPS was required to help Amtrak meet and manage any reforms that Amtrak is required to implement in the years to come. Amtrak's Finance Department also decided to rewrite RPS to replace the current mainframe system with a modern client-server architecture that would be less of a black box, more accessible to users, and easier to change, document, and audit.

The phrase "RPS rewrite" is not accurate for describing this initiative, which was much more ambitious and comprehensive than simply translating RPS software code and transferring that code to a new computer system. Amtrak originally intended to re-host RPS on a server platform and upgrade its functionality in a follow-on project. That goal was quickly changed to include expanding RPS functionality to address many of the weaknesses documented in FRA's and Volpe's requirements analysis described above, and to become the platform for implementing the eventual DOT-approved methodology Congress mandated. In the end, Amtrak retained elements of RPS that worked well and introduced new functionalities, such as the ability to calculate the avoidable costs of Amtrak routes, allocate G&A expenses to all Amtrak businesses, and allocate infrastructure-related costs to all users of Amtrak infrastructure, including freight and commuter agencies.

3.4 APT: A Collaborative Solution

The similarity between FRA's and Volpe's effort to develop a methodology for estimating the Avoidable and Fully Allocated costs of Amtrak routes and Amtrak's effort to improve RPS and rehost it in a client-server environment offered a unique opportunity for collaboration and

synergy that greatly facilitated developing the methodology described in this report. Recognizing this opportunity, FRA, Amtrak, and Volpe made the decision to pursue these parallel initiatives as an integrated effort. The result of this collaboration is the APT system.

FRA, Amtrak, and Volpe worked together on many levels to develop APT. Recognizing early on that APT would be used to assist in preparing data on the avoidable and Fully Allocated costs of Amtrak's routes for its annual report to Congress, Amtrak's Finance Department invited FRA and Volpe to be part of its RPS System Rewrite Project by helping to evaluate approaches for its new information system and to evaluate software vendors and their proposed solutions. This collaborative approach extended to deciding as a team which new features and functionalities APT would include and how the system's cost methodology would be structured and configured. Because APT integrates with existing financial and reporting systems, Amtrak assumed primary responsibility for information system development. Volpe and Amtrak jointly developed and achieved consensus on the allocation rules used to calculate the Fully Allocated costs of Amtrak routes (and the need for additional studies or updates where the preferred rules were not immediately feasible or implementable). Volpe assumed primary responsibility for developing the methodology to estimate the avoidable costs of Amtrak routes, with invaluable assistance from Amtrak staff in providing the necessary information to complete this work.

The development of APT was made possible through the collaboration of FRA, Volpe, and Amtrak. The fact that the methodology for calculating the avoidable and Fully Allocated costs of Amtrak routes was developed with substantial input by Amtrak, which means APT more likely will be properly implemented and maintained and the results will be viewed as valid.

Amtrak will shut down RPS shortly after APT is operational and validated.

4 General Principles of Cost Allocation

4.1 Background

Whether a particular method of allocating costs to a company's different products and services is appropriate or not depends on the managerial task at hand.

4.1.1 Financial Accounting

Periodic audited financial statements, such as those prepared by Amtrak, are produced primarily for the use of stakeholders external to company management. They are an attempt to answer for a company's stockholders and the general public the question of whether, taken as a whole, the company operated profitably during a particular time period. This requires appropriate allocation to the past time period of the total cash inflows and outflows that took place during the period, as well as the proper accrual of noncash revenues and expenses. In turn, the preparation of such financial statements also requires the identification of certain portions of these flows as constituting not the period revenues or expenses, but rather the acquisition of new assets or liabilities that are useable to the enterprise over many periods.

Generally accepted accounting principles (GAAP) are intended to counter any temptation for exaggeration in these statements by requiring physical assets to be valued at original cost, not subject to markup until sale and subject to markdown only if proven to be no longer useable. This original valuation is preserved when, for future financial statements, portions of these assets are allocated to time periods in the form of periodic depreciation expense.

4.1.2 Managerial Accounting

Stakeholders internal to a company require different information about costs. Within a company, management requires that cash outflows be allocated not only to different time periods, but, in order to make operating and marketing decisions, also to the various products and/or services that the company sells. Managerial accounting asks questions such as: "What expenses are being incurred solely to produce particular products?" and "How much revenue would the company have to receive for each of its products for all its period expenses to be covered?" In manufacturing companies, the preparation of public financial statements also requires that some portion of total period expense be allocated to particular products to value end-of-period product inventory as an asset.

Managerial accounting is closely related to management's task of reviewing and controlling the period expenses incurred by the different production and internal service functions within the company. This typically involves expense budgets based on estimated relationships between the volumes of different products or services produced for sale and the expense incurred by particular functions. RPS, which allocated a large portion of each accounting period's recorded expenses to the different trains on which it provides service, is an example of a managerial accounting system. In a nongovernment sponsored company, that is a purely private enterprise, such estimates would likely only be included in internal management planning and control

reports. In Amtrak's case, however, such information is prepared for distribution to its diverse stakeholders including FRA, Congress, and the general public.

4.2 Cost Allocation Techniques

4.2.1 Identifying and Allocating Direct and Indirect Costs

Some of a company's operating costs, typically certain labor and materials costs, are directly generated by, and thus can be exclusively identified with, particular products and/or services. It is appropriate for the financial record-keeping system to identify these expenses by direct coding, although it is not cost-effective to do so where the cost of such additional coding would be greater than the benefit of the additional information received. Where an operating expense is so identified and directly coded to particular unit of production, then it can be straightforwardly attributed or assigned to each unit of each product.

Other costs are generated by service activities, such as information and communications systems support, plus G&A activities, such as legal staff, that the company requires in order to operate but can only be indirectly associated with products and/or services. Expenses that cannot be directly coded because they are not directly associated with particular products are normally pooled and allocated to products through the use of "cost drivers" or allocation statistics representing a reasonable estimate of the relationship between the production and the size of the particular expense pool. All expenses, grouped within a given cost pool, are then allocated on the same consistent basis. Certain expenses, such as those related to G&A activities that have no reasonably quantifiable relationship to production processes, may be allocated to individual products using percentage markups over cost driver-allocated expense. RPS, which allocates certain corporate overheads to trains on the basis of total train expense (TTE), is an example of such a practice.

4.2.2 A Cost Accounting Option: Allocating Service Activity Costs to Production Activities

In managerial accounting systems of manufacturing enterprises, the costs of their internal service departments, whose activities are not directly related to individual products, are typically allocated to their production departments, whose total costs are, in turn, finally allocated to the different products manufactured for sale to customers. At Amtrak, by contrast, cost allocation stops at the level of trains, which might be viewed as "production activities," even though Amtrak's true "product" is its transportation of individual customers. In RPS, all costs attributed to individual trains, including those of Amtrak's service activities or G&A activities, are either (1) directly identified with or (2) allocated to those trains either by cost drivers representing characteristics of the trains themselves (engineman hours, locomotive miles, etc.) or by markup over already-allocated expense. RPS treats trains as the products to be costed; it does not currently allocate costs to subtrain level services, such as point-to-point basic transportation, sleeping car service, and food and beverages sold to customers on the same train.

Several acceptable alternatives exist for allocating costs to individual products. The simplest method is the single-step approach. Under this approach, all types of costs, such as production

department costs, service department costs, and G&A costs, are allocated directly to final products. Where the cost effects of a company's products throughout the enterprise can be traced by detailed product coding or the pattern of these effects differs little between products, a single-step allocation method is satisfactory. RPS employs a single-step approach to cost allocation. As noted above, each expense in FIS is either directly assigned or allocated to a final "product," for example, either an Amtrak train or other business, in a single step.

Where the cost burden of service activities is unevenly distributed among products, some of which pass through production processes that have required considerable service activity support and some of which do not, a multi-step approach may be used. Under a step-down or two-stage method, costs are trickled down from service departments to other service departments and production departments, using cost drivers that reflect the nature of the workload placed on the former by the latter and ultimately to final products. A more complex approach, the reciprocal method, involves setting up a series of equations to allocate costs among all service and production departments simultaneously rather than in a particular sequence as in the step-down method. Given the similarity of Amtrak's trains in the sense of the type, if not the quantity, of cost inputs they require, combined with its extensive collection of statistics describing individual train characteristics and available for use as cost drivers, a multi-step system is not the most appropriate for this new cost accounting methodology.

4.2.3 Recognizing Cost Variability

When managers use product cost information, they must distinguish between costs that vary directly with production volume and those that are fixed over certain ranges of production. Many indirect costs may vary partially with production volume. Separation of these costs into fixed and variable elements may be estimated by inspection of past volume and expense records or by subjecting production and expense data to formal regression analysis.

4.3 Defining Avoidable and Fully Allocated Costs

Amtrak is required by statute to report periodically the "Avoidable" and "Fully Allocated" costs of its routes. Some confusion can arise over the definition of these terms in different applications.

4.3.1 Classic Full Product Costing in the Manufacturing Environment

Manufacturing firms often value their units of product inventory on the basis of their directly traceable costs of labor and materials plus that portion of indirect manufacturing cost that they believe varies with product volume. This might be thought of as the avoidable cost of production. They then add an allocation of the remaining indirect manufacturing cost to arrive at the typical "full absorption" inventory value that is used for financial statement purposes. Corporate G&A costs are normally not included as they are considered costs pertaining to the particular accounting period on which the statement reports and not suitable to be capitalized as part of inventory asset values.

When projecting the cost of a possible increase in volume, however, manufacturing managers would consider the total incremental costs that would be generated by such an increase, that is, variable manufacturing costs plus the portion of marketing, administrative, and other corporate costs that they believe would vary with volume. If the contemplated volume increase were significant enough to require expanded equipment and facilities, incremental capital charges would have to be considered.

4.3.2 Avoidable Costs

The term "Avoidable Cost" has been employed by the Surface Transportation Board (STB) and its predecessor Interstate Commerce Commission (ICC) for many years in deliberations regarding abandonment of rail lines and discontinuance of railroad service. The definition and usage of the term in this study largely follows this precedent.[9]

Avoidable Costs are defined as costs that cease to exist when a route is no longer operated. When a service stops being provided, some activities that were required to provide it can be eliminated or reduced to a smaller scale. The costs of the resources they previously consumed are *avoidable*. The portion of a company's costs that may be considered avoidable clearly depends on the time horizon involved. In a sense, all costs are avoidable in that if a company discontinued all productive activities and liquidated, then it would have avoided all its costs of operation because it would not be operating. Short of liquidation, however, a company may avoid certain support activity costs and capital costs for certain facilities and equipment by reducing its volume of productive activity, although a lower scale of operations may not allow the same efficiency in the application of direct labor or materials to production. However, a company's Avoidable Cost of producing a product is understood to mean the costs that the company would not incur, after a period long enough to make appropriate adjustments in direct production labor and purchases of materials and business services, if it discontinued some part of its production without changing the scale of those parts of the enterprise that support rather than perform direct production activity.

Procedures to estimate Avoidable Costs for STB and ICC deliberations include the recognition of lost revenues on connecting services. By including these effects, a more complete measure of the financial impact of service termination on the enterprise is provided. These lost revenue effects will exist to varying degrees if Amtrak routes are terminated, but have not been included in this methodology for regular reporting of Avoidable Costs and should be considered as part of follow-on development efforts. As Amtrak's trains function as a network and changes to individual or multiple trains likely result in changes to revenue not just on the affected trains but on other trains, calculating the avoidable revenue is a difficult exercise.

Distinctions exist between Avoidable Costs as used in this methodology and the similar concepts of variable costs, incremental costs, and marginal costs that are used elsewhere for other purposes:

[9] Differences arise in the treatment of capital charges and liquidation of assets.

- *Variable costs* are those that fluctuate directly with the *level* of output, in contrast to fixed costs which do not vary. Total costs are the sum of fixed and variable costs.
- *Incremental costs* are the costs that vary, either positively or negatively, as output changes from a baseline level.
- *Marginal costs* are the differential costs of (only) the *last unit* of production, either added or subtracted.
- *Avoidable Costs* refer to the specific case in which output is reduced or eliminated. Because it is used in conjunction with specific time horizons, it can include what are referred to as fixed costs in the other cost concept definitions. This gives rise to the succinct statement: "All variable costs are avoidable, but not all Avoidable Costs are variable."

4.3.3 Fully Allocated Costs

A general definition for Fully Allocated costs may be taken from the management question posed in the background section above, that is: "How much revenue would the enterprise have to receive for each of its products for all its period expenses to be covered?"[10] Allocation of all costs to individual products and services does not imply that each product caused its particular portion of the company's total costs, but rather defines the level of revenue that, for all products taken together, is required for the company to recover all its costs. These include time period allocation of past capital investment costs in the form of depreciation expense and payment in the form of interest expense for remaining outstanding debt used to financed these investments.

In some situations, an allowance for profit is included in the Fully Allocated cost for a product or service, which, however, is not an expense that appears in the expense section of a company's income statement. For example, government bodies sometimes contract for services on a Fully Allocated cost basis with the intention that vendors selling under such arrangements be enabled to recover all their costs, including those not directly identifiable with contract performance, plus usually an allowed level of net income. A similar approach is generally taken when government authorities empowered to regulate the prices charged by public utility enterprises evaluate the costs of the services these firms sell to the public.

Two costing definitions are encountered in cost allocation literature:[11]

> **Full absorption costing:** The costing method that assigns all types of *manufacturing* costs (direct material, direct labor, fixed and variable manufacturing overhead) to units produced. Full absorption costing excludes nonmanufacturing costs such as marketing, administrative, interest, and other central corporate expenses.
>
> **Full costing ("Fully Allocated" costs):** The total cost of producing and selling a unit; often used in long-term profitability and pricing decisions. Full cost per unit equals full absorption cost per unit plus marketing, administrative, interest, and other central corporate expenses per unit. The sum of full costs for all units equals total costs of the

[10] This presumes that those expenses not attributable exclusively to a particular product were allocated to all products on a consistent basis

[11] Glossary of *Cost Management Concepts*, Roman Weil, Chicago: University of Chicago.

firm and is the concept used in this Fully Allocated cost methodology.

4.3.4 Substitution of a Forward-looking Capital Charge in Fully Allocated Costs

If calculated on the basis of underlying financial accounting data, the Fully Allocated costs of all of a company's products should total all expenses shown on its income statement for the time period during which the products were produced and sold.[12] Although presuming that the enterprise will continue to operate in the future and requiring certain projections of future financial obligations it has undertaken, GAAP-compliant income statements intended for external financial reporting essentially constitute an evaluation of a company's activities in the past. In particular, depreciation charges are based on the values of physical assets recorded in balance sheet accounts at the time of acquisition and interest expense on the provisions of still-outstanding debt obligations contracted for in the past. For internal decision-making and planning purposes managers may project these capital charges, as well as other expenses, as they will likely appear on future financial statements, when the firm's economic conditions may be different. As explained in Section 7.7, however, Volpe recommends that the capital cost element of a new Amtrak route cost methodology be based on the same "historical" values of physical assets as underlie Amtrak's GAAP-compliant financial statements, which appears consistent with normal practice in external financial reporting and may be presumed to respond to the intent of Congress in requiring that such a methodology be developed. As will be further explained, the only modification to a "backward-looking" approach to capital costs recommended here is use of a continuously-updated rate of return in converting past asset acquisition values into capital charges applicable to current periods.

[12] However, one would not normally expect these total fully allocated costs to have included any expenses reported on the enterprise's income statement as extraordinary or non-recurring or as income tax expense, the latter only constituting a continuing cost to the extent, under tax liability calculation procedures, other costs are eventually exceeded by revenues. (Amtrak, in any case, is exempt from State and local income taxes and has not been recording any income statement provisions for Federal income taxes.)

5 Methodology for Estimating Fully Allocated Costs

5.1 General Approach

The methodology for estimating Avoidable and Fully Allocated costs for Amtrak's routes observes established principles of cost allocation outlined in Section 4 of this report, while at the same time reflecting Amtrak's unique circumstances and requirements, and correcting some of the real and perceived deficiencies of the current RPS system.

Although Amtrak is currently developing a new information technology system for implementing the methodology described in this report, both for practical purposes and to maintain consistency with Amtrak's audited financial reports, any methodology used by Amtrak to calculate avoidable and Fully Allocated costs must operate within the constraints of the company's other information technology systems and of its recordkeeping structure. These include FIS, and its various systems for calculating and maintaining operating and other statistics, such as OMS and PAS/ALMS. As discussed earlier in this report, each financial transaction in Amtrak's general ledger is identified by five pieces of information: (1) ResCen, (2) Business Line, (3) Account, (4) Function, and (5) Location. The methodology for estimating avoidable and Fully Allocated costs will focus primary on three of these designations, namely, the ResCen, Account, and Function.

Discussions among FRA, Amtrak, and the Volpe Center concluded that to accurately estimate costs for Amtrak's trains and routes and to correct deficiencies of the current system, the methodology must incorporate additional system requirements beyond those found in RPS. FRA's primary mandate is to develop a methodology for estimating the avoidable and Fully Allocated costs for Amtrak's routes. Amtrak's current RPS system, however, does not estimate avoidable costs. Further, for a number of reasons, RPS does not clearly or accurately allocate all company costs to Amtrak routes and other businesses.[13] For example, the current RPS system allocates some costs entirely to its train routes that should be spread across both the company's routes and its other businesses, thereby overburdening the former. To accurately estimate avoidable and Fully Allocated costs for Amtrak routes, the new methodology must allocate systemwide costs, such as G&A and other overhead costs, to all of Amtrak's businesses in a logical and equitable manner. It must also allocate Amtrak infrastructure-related costs to all users of Amtrak infrastructure.

The methodology described in this report is also intended to improve the accuracy of the cost estimation process by improving the logical process through which costs are spread among Amtrak's routes and other businesses and, to the extent possible without necessitating changes to underlying business operations, by reducing the methodology's susceptibility to coding errors. Finally, the methodology ideally should be clear, relatively easy to understand and explain, and readily maintained and updated in response to changes in company operations.

[13] In addition to its National Train System (NTS), Amtrak operates several other businesses, including Commuter Operations, Freight & Commuter Infrastructure Access, Reimbursable, and Commercial businesses.

To achieve these objectives, the new methodology for estimating avoidable and Fully Allocated costs incorporates the following strategies:

- Increase the proportion of costs directly coded to (and therefore capable of being directly assigned to) trains. This effort, however, is constrained by certain features of Amtrak's accounting system and operational processes.
- Focus primarily on ResCens to allocate shared expenses that cannot reasonably be directly coded to trains. Discussions with Amtrak's Finance Department staff indicated that operating expenses in FIS are most accurately coded to ResCens; other codings in FIS, such as Function and Account, are more prone to coding errors.
- Allocate ResCen expenses described in bullet two above at the more finely grained Function and Account levels in order to better match Amtrak train and other business activity with resources consumed.

Most ResCen costs are allocated to Amtrak routes and other businesses through a single-step or direct process. Given Amtrak's extremely detailed cost coding system, it was determined that the step-down and reciprocal approaches to cost allocation described in this report's previous section would likely add needless complexity to the methodology. Finally, route costs will follow Amtrak's existing convention of allocating costs to the train and then aggregating ("rolling up") costs to the route level. Not only is this the most accurate means of estimating train and route costs, but such an approach has the practical advantage of allowing the utilization of existing Amtrak operating statistics.

5.2 ResCen Family Structure

A particularly important feature of the methodology for estimating avoidable and Fully Allocated costs involves the grouping of Amtrak's ResCens into cost categories or "Families" based on similarities of costs and activities, as reflected by Functions, Accounts and other factors. ResCen families provide a framework both for the purpose of analysis and for the allocation of costs to trains and other Amtrak businesses. While the Family framework was designed primarily as a tool for estimating Fully Allocated costs, it also serves as the basis for estimating avoidable costs; i.e., Fully Allocated and Avoidable Costs are estimated in a parallel manner for each ResCen Family.

An analysis of Amtrak ResCen activity has resulted in the development of nine broad ResCen families, broken down for allocation purposes into 36[14] Subfamilies. In a few cases, Subfamilies are further broken down into Subcategories. The following tables list the nine families and one example of a ResCen Subfamily breakdown. A full listing of ResCens Families, Subfamilies, and Subcategories and their members, roughly 1,600 ResCens in total,[15] can be found in Appendix A. A key element of the methodology is that ResCen families are mutually exclusive

[14] Only 36 are used for cost allocation but APT uses a 37th to provide a mechanism for treatment of expenses that are not considered costs under this methodology.
[15] The exact number of ResCens changes as the Amtrak organizational structure evolves over time.

in terms of their members (each ResCen is assigned to one and only one Family). The same rule holds true for Subfamilies and Subcategories.[16]

Allocating ResCens expenses through the mechanism of ResCen Families has a number of advantages over allocating general ledger expense entries in a less systematic manner. Organizing the estimation methodology around ResCen Families provides structure to the allocation process, and helps to ensure that similar types of expenses are allocated in a consistent manner and to the correct routes and businesses. Within each Family, rules exist for how to allocate particular types of expenses based on the Functions and Accounts associated with those expenses and other factors in special cases. Organizing the cost allocation process around ResCen Families improves the clarity of the overall methodology by organizing these numerous rules into a smaller number of "meta-rules," or Profiles.[17] Each Subfamily or Subcategory has its own Profile, consisting of all the rules for allocating expenses for ResCens contained in that Subfamily. Because all ResCens in the Subfamily perform similar activities and all expenses within those ResCens are allocated using the same rules as specified in the Subfamily profile, expenses for similar activities are allocated in a consistent manner. Furthermore, allocating expenses through such Profiles makes the new methodology easier to implement and update.

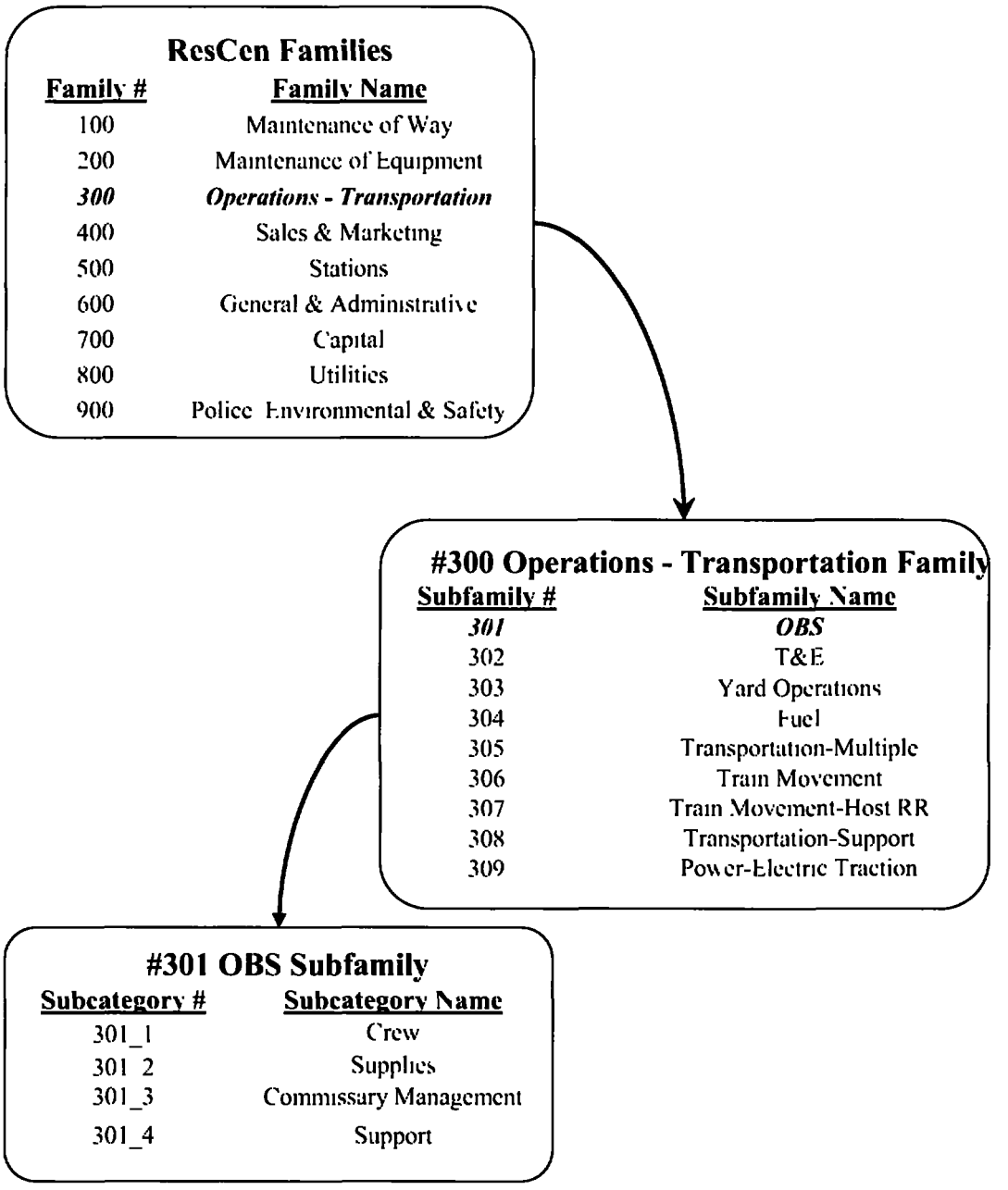
Establishing Profiles for the various Subfamilies of ResCens also improves the accuracy of the methodology by providing a mechanism for monitoring possible incorrect cost coding. Under the new methodology, an expense coded to a particular ResCen is allocated to trains and other businesses associated with that ResCen no matter what Function or Account is associated with the expense. The methodology also includes a capability whereby costs coded to a ResCen that do not conform to that ResCens profile, for example because they are coded with an inappropriate or atypical Function or Account for that Subfamily, are flagged for review. Costs that are properly coded would be allocated to trains and business associated with that ResCen in a logical manner; costs that are not correctly coded would be redirected to the appropriate Family.

The development of the ResCen Families was a collaborative process between Amtrak and the Volpe Center. This process entailed two steps. First, the overall Family structure, including Subfamilies and Subcategories, was created based on an understanding of railroad operating requirements and conventional organizational structures. Second, ResCens fitting the Subfamily and Subcategory Profiles were assigned to those cost categories based on an analysis of Amtrak's Chart of Accounts and discussions with Amtrak field and finance staff.

[16] Due to the current configuration of ResCens at Amtrak, a small number of exceptions exist to the rule that costs within a ResCen single Family, Subfamily or Sub-category are allocated perfectly consistently. For example, ResCen 0202, Corporate Common, is a member of Subfamily 603, Qualified Management and Services, however, because it is extremely broad in the scope of its activities, this ResCen must be treated differently than other ResCens within this subfamily. Rather than create a subcategory consisting a single ResCen, ResCen 0202 was allowed to remain in Subfamily 603.

[17] Profiles are explained in more detail in Section 5.3.2 below, and a full listing appears in Appendix A.

Table 5-1: Hierarchy of Amtrak ResCen Families



5.3 Estimating Amtrak's Fully Allocated Costs

5.3.1 Definition

As defined in Section 4 of this report, Fully Allocated Costs for a product or service are the total costs of producing and selling that product or service, including all types of production costs (direct materials, direct labor, and fixed and variable overhead) and also a share of marketing, administrative, financing and other central corporate expenses.

5.3.2 ResCen Subfamily Profiles

The ResCen Family structure of Families, Subfamilies and Subcategories described above provides the framework for the estimation of Fully Allocated costs. Each Subfamily has a Profile which establishes the rules for allocating expenses within that Subfamily. The members of each Subfamily (ResCens) determine the expenses to be either assigned or allocated; that is, expenses coded to a ResCen belonging to a particular Subfamily will be allocated according to that Subfamily's rules. The expenses referred in the methodology are transaction level expenses from FIS.

The Profile or meta-rule for each Subfamily establishes several essential elements of the method for estimating Fully Allocated costs. First, it establishes whether an expense will be directly assigned to a train or other Amtrak business[18] or allocated. In the methodology, expenses that are coded with a train number are directly assigned to that train without undergoing any allocation process. The wages of Amtrak onboard service employees, for example, are coded directly to the train on which they work. In addition, in certain cases, the ResCen or Function indicates the train or other business that should receive the cost. ResCen 7113, for example, is "Yard Crews Virginia Rail Express (VRE)," which specifies that this ResCen is responsible for the Yard Crews that handle VRE trains and, therefore, all of its expenses should be assigned to Amtrak's Commuter Operating business. Similarly, Function 1997, Maintenance-of-Way (MoW) Reimbursable, indicates that all of its expenses should be attributed to Amtrak's Reimbursable business.

Expenses that are not coded with train numbers and that cannot be traced to a train or other business through any other means are allocated. Each expense in Amtrak's general ledger, FIS, is coded with a Function code and an Account code. The Subfamily Profile determines how expenses coded with each Function code and Account code are allocated and what allocation statistic is used to allocate expenses associated with each code (how an individual expense is allocated is referred to as its "allocation rule"). The allocation rules are the same for all ResCens in the same Subfamily (or Subcategory). For example, ResCen 2554, Station Services Savannah,

[18] Although this report refers to costs being allocated to trains for the purposes of conciseness, the methodology allocates costs both to Amtrak's NTS trains and to all its other businesses and the references to allocating to trains should be read to mean allocation to trains and other Amtrak businesses where appropriate.

GA, and ResCen 2858, Stations Services Seattle, WA, are both in the Stations-Shared Subfamily. Expenses coded to Function 1271, Station Services-Station Operations, in FIS at those stations will be allocated to all trains served by those stations using the same allocation statistics, namely (TBD).

5.3.3 Allocation Statistics

Allocation statistics are typically operating or other types of statistics from another Amtrak information system, although they also may be manually calculated or calculated within the new APT system. For an expense to be correctly allocated to trains, it has to be assigned an appropriate allocation statistic, which is used to calculate the share of an expense that is allocated to a particular train. Each train receives a share of a given expense in proportion to the value of its allocation statistic relative to the total value of that statistic for all relevant trains. Two main criteria exist for choosing the allocation statistics. First, an allocation statistic needs to be logically related to the activity generating the expense, preferably a cost driver. Second, it needs to be available for all trains and other businesses to which the expense is allocated. The statistics used in the Profiles satisfy these criteria, however, in a few cases, the preferred statistic for allocating a certain expense was not available and an alternate, but still reasonable, statistic was chosen. A description of all the allocation statics used in the methodology can be found in Appendix D.

In some cases, all or nearly all Subfamily expenses are allocated using a single allocation statistic. In others, several different allocation statistics are required depending on the Functions and/or Accounts making up the Profile or other special features of the Subfamily. In a few rare cases, the allocation rule requires that a single expense be allocated using more than one statistic. This is the case in which a single cost driver could not be identified for the activity associated with the expenses or a portion of expenses have no single reasonable cost driver associated with them.

To allocate an expense using more than one statistic, the methodology uses an "ACK Ratio". As detailed in Section 2 of this report, ACK stands for Account Code Key and refers to the five information codes attached to each transaction in Amtrak's FIS (ResCen, Business Line, Account, Function, and Location). An ACK Ratio is a value between zero and one that defines the proportion of an expense that is to be allocated using each allocation statistic. Together, each ACK Ratio must sum to one for a particular expense. When ACK Ratios are used, they are specified clearly in the Subfamily Profile.

Several ACK Ratios were utilized in cases when professional judgment and/or other research and analysis were used to determine that a single statistic was inappropriate. One such example is in Subsidiary Subfamily #605, where some self insurance expenses associated with the Passenger Railroad Insurance Limited (PRIL) subsidiary are allocated using an ACK Ratio. Although expenses share the same ACK code, some arise due to the operation of NTS trains and other are self insurance expenses covering liabilities related to Amtrak employees performing work for third parties. The latter is related solely to Amtrak's Reimbursable business and needs to be allocated to that business alone. Based on a review of liability claims by Amtrak staff, the majority of insurance claims (66 percent) are allocated to NTS trains based on Total Passenger

Miles (TPM) and the remainder (34 percent) are directly assigned to the Reimbursable business. The methodology uses an ACK Ratio of 0.66 for NTS and 0.34 for Reimbursable to achieve this. Similar analyses contributed to the use of ACK Ratios in other Subfamilies. The use of ACK ratios is noted in the Section 6 descriptions of allocation methodology for individual Subfamilies, or in Appendix A (in the Statistics columns of the Profile tables), or both.

5.3.4 Cost Objects

Subfamily Profiles identify the cost objects or entities to which costs are allocated. In the case of Amtrak, cost objects include trains and other businesses.

Activity Groups

An Activity Group is a fixed list of trains and other businesses to which expenses are allocated. Activity Groups are used to restrict the list of trains and other businesses to which a ResCen expense is allocated. For example, Turnaround ResCens clean, inspect, and perform minor repairs on Amtrak trains and Amtrak-operated commuter trains before each departure. Although turnaround servicing is performed by a ResCen at a train's origin, trains are not always serviced at each Turnaround ResCen through which their routes pass. Thus, Activity Groups are used to limit and identify the particular trains that receive a share of expenses at each ResCen.

Statistical Qualifiers

Another way to restrict the list of trains to which a cost is allocated is through statistical qualifiers or "Stat Qualifiers" (SQ). SQs use ResCen, Location, Station, Station Pair or other information to define a list of trains to which costs will be allocated. When a SQ is used, only trains that meet established criteria receive a share of the cost being allocated. For example, "ResCen Stat Qualifiers" are used in the Trainmen and Enginemen (T&E) Subfamily to allocate expenses that are not directly coded and assigned to trains. Expenses coded to Function 1617 (T&E Overhead) at T&E crew bases are allocated using the allocation statistic Trainmen and Enginemen Hours or TEH. To allocate expenses associated with Function 1617 at a certain crew base (for example, RC5624, BOS-NHV Road Engine Crews), all trains with a non-zero value for TEH at that ResCen are identified and Function 1617 expenses are allocated only to those trains. The list of trains is dynamically defined, in that as operations change, the list also changes without any need for any manual changes to the Profile or allocation rule.

5.3.5 Other Methodology Features

Treatment of Capital Costs as Part of Fully Allocated Costs

Any sizable enterprise, and especially a railroad with its rolling stock and fixed infrastructure, has expenditures for items that are long-lived relative to the typical monthly, quarterly, and annual financial reporting periods. These expenditures are referred to as capital costs and are given special treatment in the reporting of operating costs under GAAP. Using GAAP guidelines, capital costs, rather than being reflected in the time period in which they are actually

incurred, are annualized over the expected time period for which the asset is expected to contribute to the production of output (in the case of Amtrak, the output is mostly the operation of trains). The annualized charge or cost is referred to as depreciation and is used in the income statement calculation of profit or loss from continuing operations. In addition, the interest expense on funds borrowed to cover capital expenditures are shown on the income statement in calculating the total net profit or loss of the enterprise.

In determining how best to incorporate the cost of capital into Amtrak's Fully Allocated costs, consideration was given its history of public sector contributions towards capital expenditures, the use of borrowings (and hence interest costs) for the acquisition of only certain subsets of its capital assets, and Amtrak's use of leases and sale-leaseback transactions for some capital assets. It was decided that allocating GAAP-defined depreciation and interest to trains and other ancillary businesses could not be done in a manner that would yield a cost contribution to Fully Allocated costs that reflected the relative usage of capital assets for particular trains. Instead, it was decided that a synthetic capital charge provides a more representative measure of the resource cost of all capital equipment and property—regardless of how financed—currently being used by Amtrak to produce its various services and outputs. The synthetic capital charge is an annualized value based on the original acquisition costs of the assets and the underlying opportunity cost of capital as a production resource as reflected in the U.S. Treasury long-term borrowing rate. Because Amtrak's data systems do not link capital assets to ResCens in specific areas, other procedures link them to the trains and other businesses they support.

The development of a methodology for calculating, on a sound economic basis, a capital charge to be allocated to businesses and trains in both Fully Allocated and avoidable costing modes, implies no recommendation regarding the practical application—for example, in the negotiation and pricing of services that Amtrak performs for other entities—of the charges thus calculated. The capital charges, like other topics covered herein, are presented solely for the sake of objectively and comprehensively responding to this report's Congressional mandate, thereby advancing the state-of-the-art in the allocation and analysis of the costs of intercity passenger rail service.

Total Activity Cost (TAC) and Customer Activity Expense (CAE) Statistics

Previously, Amtrak's RPS used TTE to allocate all G&A costs, but TTE is not feasible as an allocation statistic in this new methodology. TTE cannot be calculated because some of these G&A costs are to be allocated to non-train businesses and customers for which train expenses do not exist. Instead, the methodology uses a new Total Activity Cost (TAC) allocation statistic when allocating certain G&A costs that do not have a more appropriate activity-based statistic. TAC is defined to encompass both train and nontrain activities and hence has the needed functionality for allocating G&A expenses in the methodology. TAC includes the total of costs for MoW, Maintenance of Equipment (MoE), Operations-Transportation, Sales & Marketing, Stations, Capital, Utilities and Police (Regional), but excludes G&A, Police (National) and Environmental/Safety. See Appendix H for a full description of the reasoning behind and composition of TAC. Appendix H also describes the CAE statistic which is similar in concept to TAC, but is needed for G&A expenses that only get allocated to a subset of Amtrak businesses.

Levels of Allocation

Subfamily Profiles also define the level of allocation, that is, whether expenses at a particular ResCen will be spread locally, regionally, or nationally. Station expenses for a particular ResCen, for example, will be allocated locally only to trains or other business that actually operate at that Station ResCen. Fuel expenses, on the other hand, will be allocated nationally; expenses recorded at every fuel ResCen will be allocated to all Amtrak trains using diesel fuel whether those trains actually received fuel at that ResCen or not.[19] This procedure is the equivalent of pooling all diesel fuel expenses for all ResCens and allocating that cost pool to all Amtrak diesel trains.

5.3.6 Summary of Fully Allocated Cost Methodology

A ResCen Subfamily and Profile answer three questions: (1) what expense(s) is being assigned or allocated (an FIS expense for an individual ResCen), (2) how the expense will be allocated (what statistic will be used to apportion the expense), and (3) to what Amtrak trains and other businesses the expense will be allocated.

Figures 5-1–5-4 illustrate the Fully Allocated cost methodology for several hypothetical FIS transactions. Figure 5-1 depicts the initial step whereby expenditures are sorted into three categories:

- Operating expenses, which are directly assigned or allocated
- Capital expenditures, which are added to assets in Amtrak's asset ledger and eventually used to calculate the capital charge
- Other financial transactions which are not operating expenses and therefore are not further considered in the methodology.

The items in parentheses under each expense "record" are the accounting classification codes recorded along with each transaction in FIS.

Figure 5-2 illustrates the case of a hypothetical direct expense (Expense4) and shows that it is assigned directly to Train5 without any need for allocation. Each direct expense is assigned to one and only one train or other ancillary business. Figure 5-3 illustrates the case of a hypothetical shared expense, in this case an expense within the MoW-Communication and Signal (C&S) Subfamily. The MoW-C&S Subfamily is composed of ResCens responsible for maintaining the C&S systems in a geographical area, such as a section of right-of-way (ROW). As described in Section 5.3.2, to allocate expenses incurred at ResCens in a given Subfamily, the rules specified in that Subfamily's Profile are applied to all the ResCens in the Subfamily.

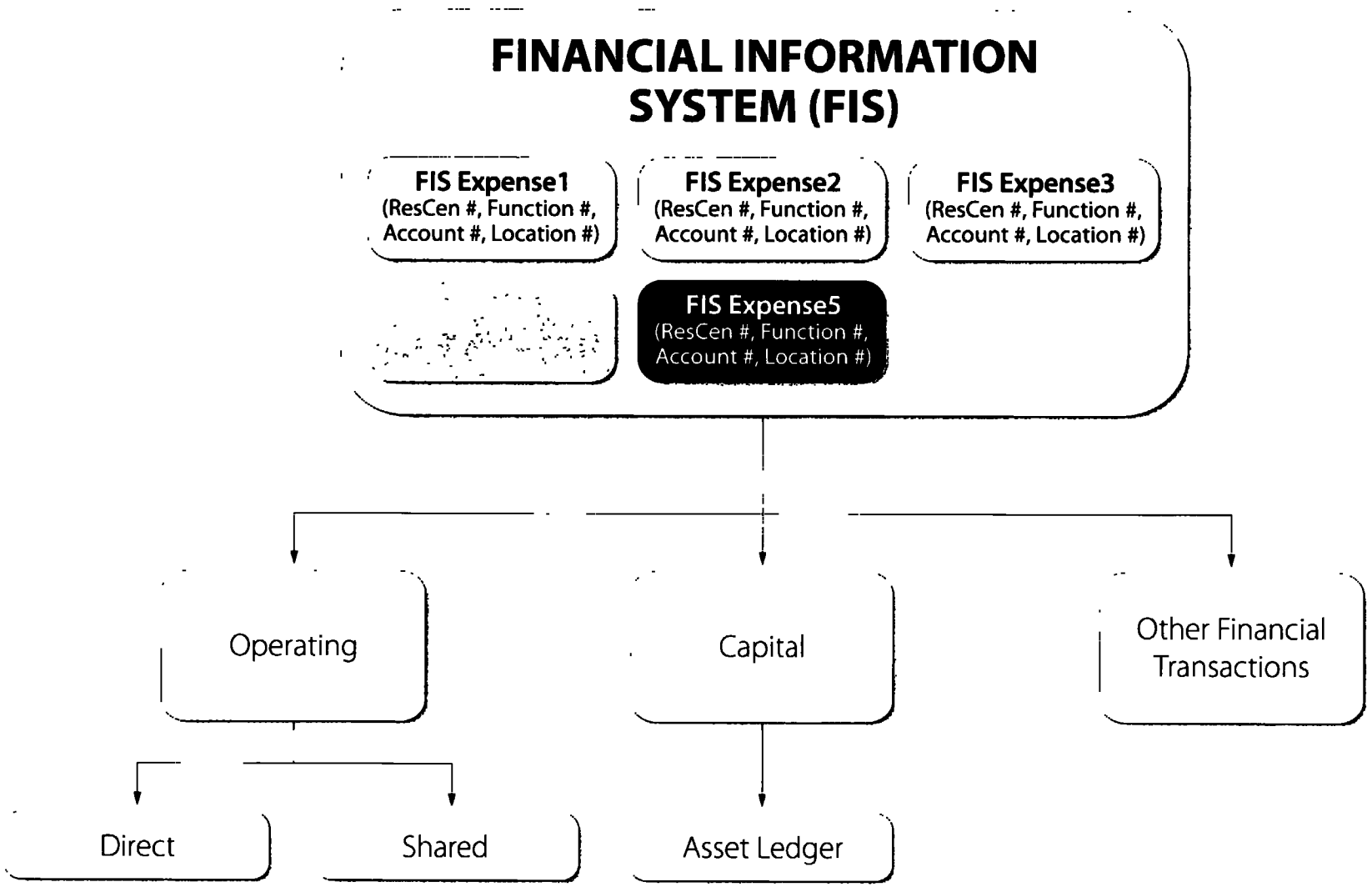
Figure 5-3 shows the process for allocating this shared MoW-C&S expense (Expense5) to Trains 1, 2, and 5, and also to ancillary business customers MBTA (Commuter Infrastructure Access (CIA) business) and CSX (Freight Infrastructure Access business). The ResCen number (BBBB) tells us that the ResCen belongs to the MoW-C&S Subfamily. The Profile for the C&S

[19] See the methodology description for Subfamily #304–Fuel for further explanation on this subject

Subfamily (see Table A-2 in Appendix A) tells us that expenses recorded with Function Code 1713 (Signal & Interlocker Maintenance) should be allocated to all Amtrak trains and other customers using the section of ROW for which that ResCen is responsible based on their relative shares of train frequency (FTT) over that section.

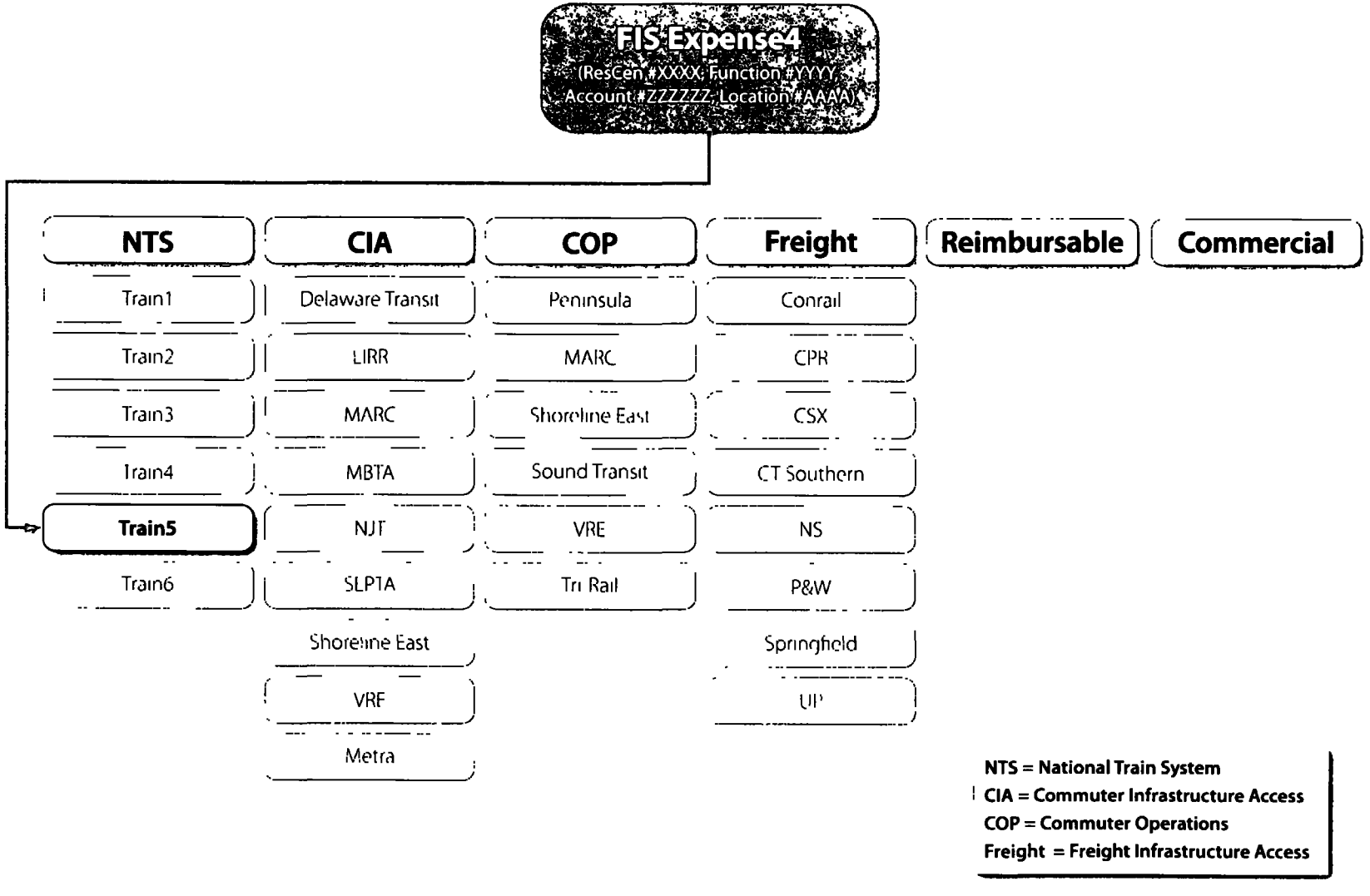
Figure 5-4 summarizes the process for calculating Fully Allocated costs. In addition to the cases covered in Figure 5-2 (Direct Expense4) and Figure 5-3 (Shared Expense5), it illustrates the conceptual data flow for converting asset acquisitions in prior periods to capital charges allocated to trains and other businesses. The final step is displayed also in which costs are aggregated to Amtrak's routes and ancillary businesses.

Figure 5-1: Allocation Methodology



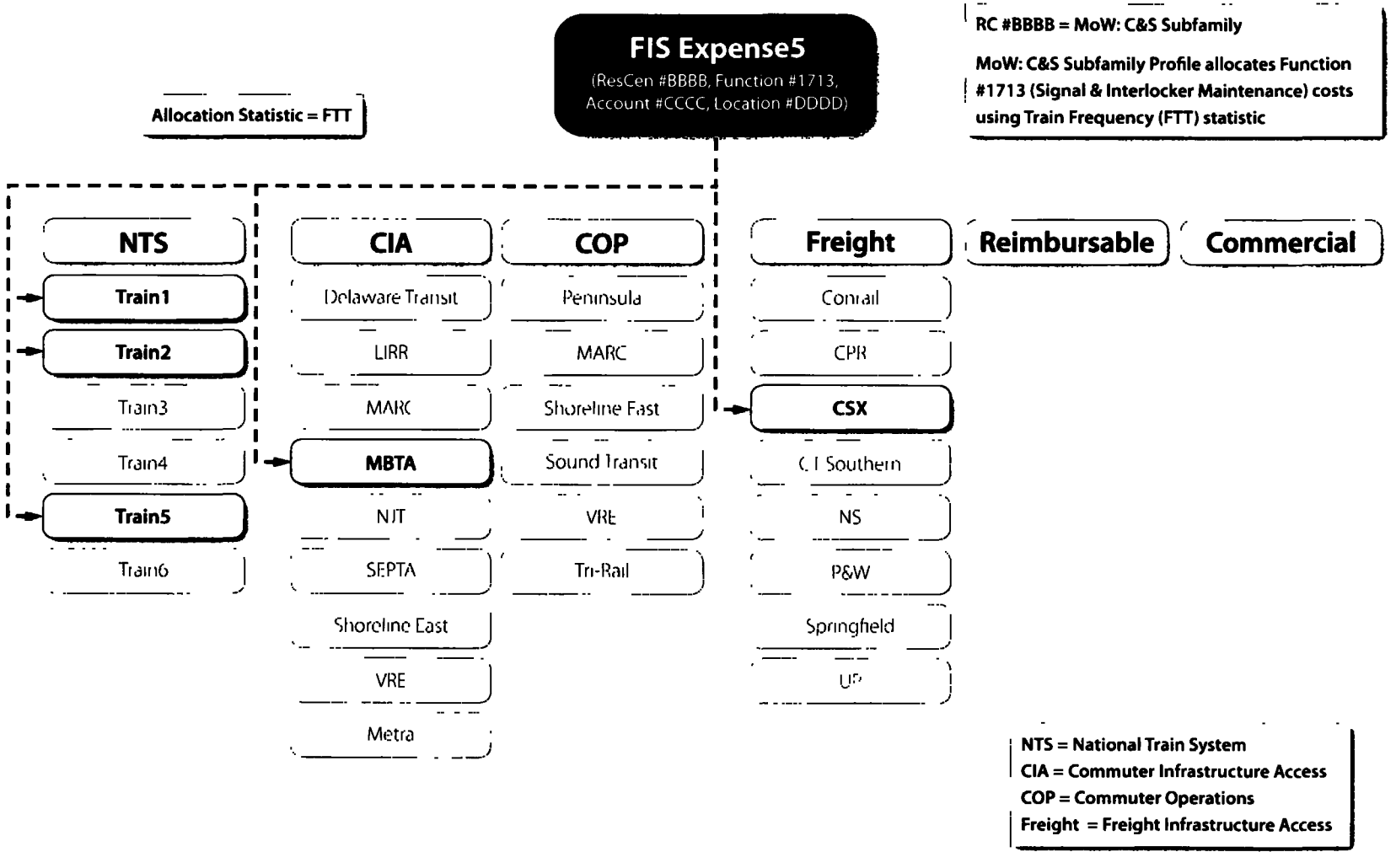
Declaration of Maximilian R. Johnson - Exhibit D

Figure 5-2: Allocation Methodology Direct Cost Example



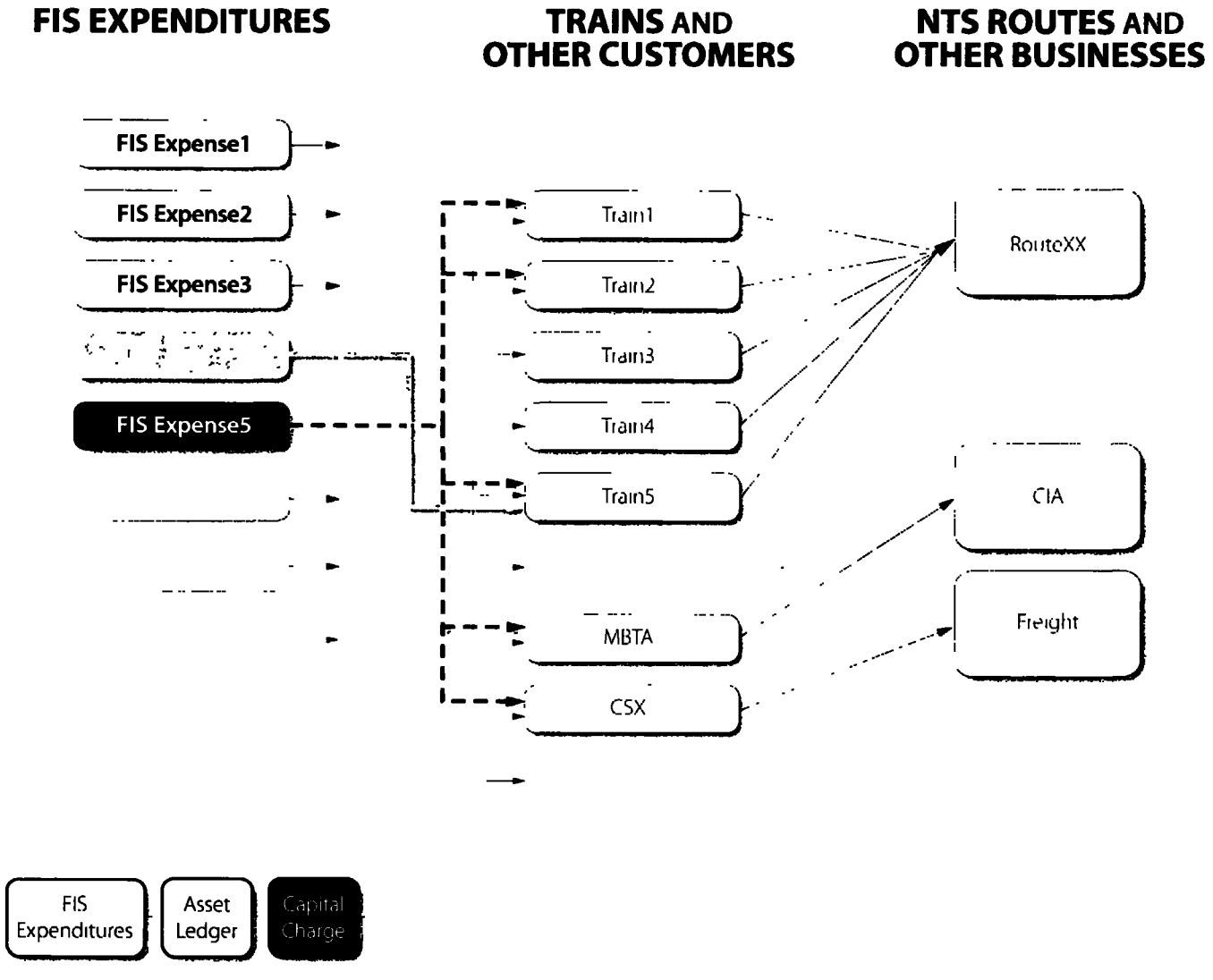
Declaration of Maximilian R. Johnson - Exhibit D

Figure 5-3: Allocation Methodology Shared Cost Example



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Figure 5-4: Aggregation of Fully Allocated Costs



6 Methodology for Estimating Amtrak's Avoidable Costs

6.1 Definition of Avoidable Costs

A key part of this recommended methodology involves estimating the costs that Amtrak can expect to avoid by eliminating a specific route. As with the method for estimating Fully Allocated costs, the approach to analyzing avoidable costs involves developing rules for Subfamilies and Subcategories and then applying those rules to costs at the ResCen level.

As discussed in Section 4.3.2, an avoidable cost is one that ceases to exist within a specified time frame when a service is no longer provided. Avoidable costs include the direct costs of operating a route, as well as any portion of shared costs that are directly connected with the performance of activities required to operate that route.

All variable costs of operating a route can be immediately avoided if that route is terminated. Other resources and activities that support a route may require some time to eliminate or adjust when a service is eliminated, so that their costs are only fully or partly avoidable after that time has elapsed. The avoidability of costs for Amtrak services is estimated over two different time horizons: (1) short run - costs that no longer will be incurred one year after a route is eliminated, (2) long run - costs that no longer will be incurred five years after a route is eliminated.

In the short run, some costs, mainly the direct costs of operating trains, such as fuel expenses, wages and other direct labor, and certain materials, can be eliminated relatively quickly when a route is terminated. Other cost savings in the first year occur as a result of operational adjustments and lags in the accounting system. In the long-term, other costs can be avoided as Amtrak's scale of operations is reduced in certain areas, such as at stations and equipment maintenance ResCens. Also, costs can be avoided as facilities dedicated to a specific route are "retired" and sold, thereby avoiding any operating and capital charges associated with their ownership. Rolling stock employed on a specific route is treated as partly avoidable in the long term. This is true because in the long run a reduced need for cars and locomotives due to cessation of a particular Amtrak service is expected to translate into a reduced need for capital outlays to renew and rehabilitate its fleet.

The actual estimates of Amtrak's avoidable costs necessarily are reduced by the expected labor protection payments provided for in its collective bargaining agreements covering certain categories of workers. Under current agreements, these payments are phased out over five years, therefore, such labor protection payments are 100 percent avoidable in the long run.

6.2 Subfamily ResCen Approach

The same Family structure used in the Fully Allocated methodology provided the framework for analyzing the avoidability of Amtrak's costs. The relative uniformity of activities across ResCens within each Family and Subfamily provides a basis for developing a single method for each. As a first step, the specific functions and ResCen descriptions for each Subfamily were examined to understand their nature and make judgments as to expected variability associated

with service changes. Specifically, a determination was made as to whether, if a route were eliminated, the supporting activities at ResCens within the Subfamilies, and hence costs associated with those ResCens, would be expected to (a) remain unchanged (fixed), (b) be reduced in (exact) proportion to the reduction in activity associated with the eliminated route (100 percent avoidable), or (c) be only partly reduced (mixed). Because of how the Subfamilies are defined, a number of them could readily be classified as having either 100 percent fixed costs or 100 percent avoidable costs.

6.2.1 Fixed

Among the Subfamilies whose costs are considered to be fixed are those in the G&A Family. The functions and activities that take place in these Subfamilies, generally, have no direct connection to operating trains on a single Amtrak route and would be likely to continue indefinitely at their current levels even if one route were eliminated.[20] Costs for some Subfamilies in the MoW area would not vary if a single route were eliminated because of the sizable level of operations that would need to continue. Track maintenance is the exception to this rule because it does vary based on the volume of traffic over any given segment.

6.2.2 Avoidable

A few Subfamilies were classified as having costs of a type that would be 100 percent avoidable if a route were eliminated. Two related examples are the Fuel and Electric Traction Power Subfamilies. In both cases, the costs are limited to "materials" purchased (diesel fuel or electric power for train operations); no labor or facility costs are incurred at ResCens within these Subfamilies. Fuel expenses are essentially proportional to train activity, and the costs incurred at a fuel or electric traction power ResCen and allocated to a particular route will be avoided if that route is eliminated. In addition, crew, food and beverage, and some other supply costs are directly coded to specific trains in the Amtrak accounting system and, except for labor protection payments, are fully avoidable if a service is eliminated.

6.2.3 Mixed-Statistical

Subfamilies classified as having mixed costs, such as those whose costs are expected to be partly fixed and partly avoidable as train service changes, required further analysis leading to a more complex method for separating a route's Fully Allocated costs into its avoidable and fixed portions. Specifically for some Subfamilies, statistical analysis of three years of cost data for the ResCens in a given Subfamily was performed to develop equations that are used to estimate each ResCen's avoidable costs. This method is referred to in this report as "Mixed-Statistical." In most cases, separate equations were developed for estimating short-run and long-run avoidable costs. A general description of this statistical analysis and how it is used to estimate avoidable costs is provided in Section 6.5, whereas details of the statistical analysis for each of the Subfamilies analyzed using this approach is provided in Section 8.

[20] Such costs may be expected to vary over time for other reasons and thus their "fixity" is only related to route changes.

6.2.4 *Mixed-Detailed*

In a few cases, it was either not possible to perform a statistical analysis on a mixed cost Subfamily, or the statistical results were unsatisfactory. In these cases an alternate method was developed, which is referred to in this report as "Mixed-Detailed." This method is based on further examination of the specific FIS Function and Account codes, and classifying them as either fixed or avoidable. Specific details are provided in Section 8.

6.2.5 *Single Route ResCens*

As part of developing the methodology for estimating Avoidable Costs, it was observed that some ResCens were involved in supporting only a single Amtrak route. In such cases, the elimination of the route would result in the elimination of the entire ResCen (and eventually all of its costs) and, depending on the specific case, possibly the short term elimination of some costs. A prime example of this situation is referred to as "route stations." Route stations serve a single Amtrak route in contrast to "shared stations," which serve two or more routes. As part of the avoidable cost methodology, for Subfamilies in the mixed category, the number of routes served by a ResCen is determined. If a ResCen serves a single route, alternative rules are used to identify the short- and long-term Avoidable Costs instead of applying the avoidability equations.

Table 6-1 summarizes the approach used for estimating the avoidability of costs for each of the Subfamilies.

6.3 Level of Avoidable Cost Reduction

As explained elsewhere, because of the underlying structure of Amtrak's accounting systems, the methodology estimates and reports avoidable costs at the single route level, but the underlying analysis is based on costs for individual trains. Expenses at each ResCen are related to the amount of activity, such as train frequency (FTT), taking place at these ResCens that would be expected to have an effect on costs. Based on the statistic selected through the modeling process, the effect of eliminating a single train is calculated for each expense record. However, this analysis does not account for the effect of any interaction between multiple route changes on the avoidable costs specific to an individual ResCen.

To ensure consistency, the statistical analysis of avoidable costs is done at the ResCen level. This is the same level of detail at which the Fully Allocated costs methodology is applied. As a result, the analytical approach used to calculate cost changes is consistent and comparable across cases for which costs are fixed, avoidable, or mixed. For each ResCen, a determination is made based on its Subfamily as to whether costs are to be treated as fixed, avoidable, or mixed. Based on this determination, the required approach for analyzing avoidable costs is selected, whether statistical analysis or, in the case of an avoidable cost like fuel, a more direct approach.

Table 6-1. Summary of Approach for Estimating Amtrak's Avoidable Costs by Subfamily

Subfamily Number	Subfamily	Subcategory Number	Subcategory	Approach
101	MoW Track	101_0	MoW Track – General	Mixed-Detailed
102	MoW Communications & Signal	102_0	MoW Communications and Signal - General	Fixed
103	MoW Electric Traction	103_0	MoW Electric Traction – General	Mixed-Detailed
104	MoW Bridges and Buildings	104_0	MoW Bridges and Buildings General	Fixed
105	MoW Support	105_0	MoW Support – General	Fixed
201	MoE Turnaround	201_0	MoE Turnaround General	Mixed-Statistical
202	Locomotive Maintenance	202_0	Locomotive Maintenance General	Mixed-Statistical
203	Car Maintenance	203_0	Car Maintenance General	Mixed-Statistical
204	MoE Support	204_0	MoE Support – General	Mixed-Statistical
205	MoE - Multiple	205_0	MoE Multiple General	Mixed-Detailed
206	HSR Maintenance	206_0	HSR Maintenance General	Avoidable
207	Backshop	207_0	Backshop General	Mixed-Detailed
301	OBS	301_1	Crew	Avoidable (LP)[21]
	OBS	301_2	Supplies Food and Beverage (F&B)	Avoidable
	OBS	301_3	Commissary/Mgmt. - F&B	Mixed-Detailed
	OBS	301_4	Support	Fixed
302	T&E	302_1	Crew	Avoidable (LP)
	T&E	302_2	Support	Fixed
303	Yard	303_1	Yard Direct	Mixed-Statistical
	Yard	303_2	Train Moves	Mixed-Statistical
	Yard	303_3	Equipment Moves	Mixed-Statistical
	Yard	303_4	Train & Equipment Moves	Mixed-Statistical
304	Fuel	304_0	Fuel General	Avoidable
305	Transportation - Multiple	305_0	Transportation - Multiple General	Mixed-Detailed
306	Train Movement	306_0	Train Movement - General	Mixed-Detailed
307	Train Movement-Host RR	307_0	Train Movement-Host RR General	Mixed-Detailed
308	Transportation Support	308_0	Transportation Support -- General	Mixed-Detailed
309	Power - Electric Traction	309_0	Power–Electric Traction-General	Avoidable
401	Sales	401_0	Sales-General	Mixed-Detailed
402	Information & Reservations	402_0	Information & Reservations - General	Mixed-Detailed
403	Marketing	403_0	Marketing - General	Mixed-Detailed
501	Stations-Route	501_0	Stations-Route - General	Mixed-Statistical

[21] "LP" refers to Labor Protection. The Avoidable (LP) methodology is described in Section 6.4

Table 6-1: Summary of Approach for Estimating Amtrak's Avoidable Costs by Subfamily, cont'd

Subfamily Number	Subfamily	Subcategory Number	Subcategory	Approach
502	Stations-Shared	502_0	Stations-Shared – General	Mixed-Statistical
601	Corporate Administration	601_0	Corporate Administration General	Fixed
602	Centralized Services	602_0	Centralized Services General	Fixed
603	Qualified Mgmt	603_0	Qualified Mgmt. – General	Fixed
604	Direct Customer (Non-NTS)	604_0	Direct Customer (Non-NTS) – General	Fixed
605	Subsidiary	605_0	Subsidiary General	Mixed-Detailed
701	Capital	701_0	Capital General	Mixed-Detailed
801	Utilities	801_0	Utilities General	Fixed
901	Police	901_1	National	Fixed
	Police	901_2	Regional/Local	Fixed
902	Security Strategy & Special Ops	902_0	National	Fixed
903	Environmental & Safety	903_0	Environmental & Safety General	Fixed

6.4 Adjusting for Labor Protection Provisions

6.4.1 Background: Labor Protection at Amtrak

The methodology for calculating the avoidable costs of labor needs to take into consideration existing labor protection provisions (LPPs) in Amtrak collective bargaining agreements. The existence of LPPs means that certain labor costs are not eliminated even if a Route is eliminated and the employees working on that Route are no longer needed. Amtrak's collective bargaining agreements have provided for various labor protections almost since the inception of the company. The Rail Passenger Service Act, through which Amtrak was established in 1970, called for Amtrak to establish fair and equitable arrangements, similar to those in existence at the freight railroads, to protect the interests of Amtrak employees affected by a discontinuance of intercity passenger service.[22] As a result, Amtrak and its unions negotiated the so-called "C-2" (applicable to operating and non-operating crafts) and "Rule 10/11" (applicable to shop crafts)

[22] For a summary and discussion of the history of labor protection provisions (LPP) at Amtrak and the status of current LPPs, see *In the Matter of the Arbitration between National Railroad Passenger Corporation (Amtrak) and Coalition of Amtrak Unions*, Board of Arbitration, October 29, 1999.

protections, providing various types of benefits to employees adversely affected by a "Transaction."[23]

Congress passed the Amtrak Reform and Accountability Act (Act) in 1997 in an effort to provide Amtrak with more flexibility to manage costs and confront the financial challenges it was facing. The Act did away with existing Amtrak collective bargaining provisions relating to labor protection and required Amtrak and its unions to negotiate new provisions that would continue to provide adequate protections to Amtrak employees, but also assist Amtrak in containing costs. Unable to negotiate new LPPs on their own, the parties submitted their dispute to binding arbitration. The Board of Arbitration under Chairman Richard Mittenthal issued a decision in October 1999 (the "Mittenthal Award") that reaffirmed most of the principles of the C-2 and Rule 10/11 provisions, while adjusting downward the length of benefits to which employees are entitled and injecting a new service tier for receiving those benefits.[24] A Supplemental Award in 2002 provided for reduced benefits to employees on state-supported trains where the decision to discontinue service is made by the State and not Amtrak.

6.4.2 Current Labor Protections Provisions (LPPs)

The trigger for granting labor protection benefits is the "Transaction," which, in the case of all employees covered by unions, including operating craft employees, is defined as a discontinuance of intercity rail passenger service below tri-weekly service on a route.[25] Displaced Employees are those who, a result of a transaction, are placed in a worse position with respect to compensation and rules governing their working conditions. A Displaced Employee will, in general, during his or her Protective Period, receive an ongoing Displacement Allowance equal to the difference between his or her average monthly compensation during the 12 months before the transaction and the compensation received for any new assignment.

Dismissed Employees are employees who as a result of a transaction are deprived of employment because of the elimination of their positions or the loss of their positions due to the exercise of seniority rights by other employees whose own positions were eliminated as a result of a Transaction. A Dismissed Employee may receive a Dismissal Allowance depending on his or her years of service. A Dismissal Allowance is a monthly allowance equal to one twelfth of the employee's compensation during the prior 12-month period, reduced by unemployment benefits and outside earnings. Employees are required to exhaust all available seniority before qualifying for a Dismissal Allowance, although as a general rule Amtrak, usually through implementing arrangements, does not compel employees to relocate immediately. A Dismissed Employee receiving a Dismissal Allowance remains an Amtrak employee and continues to

[23] The "C-2" and "Rule 10/11" terminology is derived from the subsection names in the relevant collective bargaining agreements.

[24] Service tier refers to various Years of Service categories of Amtrak employees.

[25] This discussion and the avoidable cost methodology detailed in this report only address labor protection for operating craft employees. While LPPs also apply to other employees, such as clerks, ticket agents, and mechanics, for the purposes of this methodology the nexus between a service discontinuance and the displacement or dismissal of such employees is more ambiguous and avoidable costs resulting from a service discontinuance are considered more speculative. Although not addressed in this report, such avoidable costs may be estimated in future refinements of this methodology.

receive fringe benefits, such as health insurance. Employees only maintain their status as Dismissed Employees so long as they are deprived of employment. Therefore, once an employee is no longer deprived of employment, he or she is no longer eligible for a Dismissal Allowance.

The length of time for which a Dismissed or Displaced Employee is entitled to receive an allowance and fringe benefits is termed the Protective Period and is based on the employee's years of service. The Protective Periods for various years of service timeframes are detailed in Table 6-8 and range from no Protective Period for employees with fewer than two years of service to 60 months for employees with greater than 25 years of service. Dismissed Employees may instead resign and accept a lump sum Separation Allowance in lieu of all other payments and benefits. If an employee is required to change his or her residence at any time during the Protective Period, then he or she is entitled to compensation for relocation expenses, including all moving expenses, temporary loss of wages, and losses resulting from the sale of a home. A change of residence generally is defined as new employment at a point both in excess of 30 miles from the employee's place of residence, and located further from his residence than his or her former work location.

6.4.3 Labor Protection and the Avoidable Cost Methodology for T&E[26] and OBS[27] Labor

The methodology for calculating the avoidable costs of operating labor involves calculating the Fully Allocated costs of labor assigned or allocated to a train and then applying various avoidable cost percentages to those Fully Allocated costs to estimate the costs that would be avoided if a Route were to be eliminated. The avoidable cost of operating labor is the sum of all avoidable costs in the T&E-Crew and OBS-Crew Subfamilies for all trains.

Avoidable cost percentages are calculated for each Route at each T&E and OBS crew base. Crew bases are the geographic bases of operations for T&E and OBS employees. They are where T&E and OBS employees sign in and perform other administrative tasks. In some cases a crew base may consist of two or more ResCens[28] in which case the avoidable cost percentages for a particular crew base will be applied to all ResCens that make up that crew base. All operating labor costs assigned or allocated to trains are also coded to particular crew base ResCens. Appendix G contains a table listing Amtrak's OBS and T&E crew bases and the Routes that each crew base supports.

[26] Trainmen and Enginemen.
[27] Onboard Services
[28] An example of a crew base made up of multiple ResCens is the Boston OBS crew base, which is made up of the following three ResCens

RC5048	BOS	OBS NEC Exbd
RC5051	BOS	OBS NEC
RC5052	BOS	OBS Ready Crew

Separate avoidable cost percentages are calculated for both direct labor and fringe benefits due to differences in how LPPs apply to these two categories of expenses. In addition, separate Avoidable Cost percentages are required to estimate short-term and long-term avoidable costs because in the long-term, after the Protective Period has expired for Amtrak's most senior employees, all direct labor and benefit expenses are avoidable. In addition, while in the short-term, Dismissal Allowances need to be reduced by unemployment compensation and outside earnings, in the long-term, no such adjustment is necessary.

A limited number of expenses at T&E or OBS crew bases correspond to specific Functions for which no avoidable costs percentages exist, and are treated as fixed in the short term because they are not directly related to direct T&E or OBS labor or benefits. In cases where a T&E crew base serves only one route, these Functions are treated as 100 percent avoidable in the long term. Furthermore, expenses associated with certain Accounts at T&E and OBS crew base ResCens (e.g., Account 540301, Crew Meals) are treated as 100 percent avoidable proportional to labor hours because those expenses would not be incurred if a Route were to be discontinued.

The methodology applies these avoidable costs percentages at the Function and Account level to the Fully Allocated Costs for each train within each specified Route in the same way that avoidable cost percentages are applied to costs in other Subfamilies. The rules for applying the Avoidable Cost percentage and other rules for estimating Avoidable Costs for T&E and labor are detailed in Table 6-2 through Table 6-9. The crew base determines the ResCens to which the rules apply. A look-up table is employed containing wage and fringe benefit avoidable cost percentages for each Route and crew base for both the short and long term. An example of the information that is included in this look-up table is found in Table 6-2.

Table 6-2: Sample OBS Crew Base Avoidable Cost Percentage Look-up Table

	Short Term		Long Term	
	Wages	**Fringe Benefits**	**Wages**	**Fringe Benefits**
Route 1	4.2%	4.7%	8.3%	9.4%
Route 2	4.5%	5.1%	89.4%	89.8%

6.4.4 Calculation of Wage and Fringe Benefit Avoidable Cost Percentages

The method for calculating the avoidable cost percentages utilizes information on the distribution of employees at each crew base by years of service, direct labor statistics for routes served by and operating out of that crew base, and information on contractual LPPs. Embedded in the logic for estimating the Avoidable Cost percentages are certain assumptions regarding how LPPs would logically be invoked (e.g., what the affected parties would actually do) if a route were to be eliminated as well as other assumptions about Amtrak wages. Table 6-3 is an illustration of how avoidable cost percentages are calculated for a sample OBS Crew Base.

Labor statistics, such at Trainmen Labor Hours (TLH), Enginemen Labor Hours (ELH) and OLH, for each crew base are used to calculate the percentage of total labor usage at that crew base by Route to approximate the percentage of total crew base employees required to operate each Route. If a Route is eliminated, the labor required to operate that Route is no longer needed. In cases where a crew base consists of multiple ResCens, the statistics for those ResCens must be combined to calculate relative labor usage for the crew base as a whole. In the case of T&E crew bases, relative labor usage will be calculated separately for T&E using TLH and enginemen labor hours (ELH) statistics.

In the case of OBS crew bases, relative labor usage will be calculated based on OLH.[29] For example, the sample OBS crew base in Table 6-3 serves two routes. Route 1 accounts for approximately 90 percent of the total OLH at the crew base, while Route 2 accounts for approximately 10 percent of those hours. If Route 2 were discontinued, then approximately 10 percent of the labor force at the crew base (corresponding to the 10 percent of total labor hours) would no longer be needed.

Table 6-3: Sample OBS Crew Base Labor

Routes	OLH (value)	OLH (%)	Estimated Employee Distribution
Route 1	29,968	90.5%	115
Route 2	3,147	9.5%	12
	33,115	100.0%	127

The next step is to determine which employees at a particular crew base would be affected if a route operating out of that crew base were to be eliminated. Due to seniority rules and the requirement that employees generally exhaust all available seniority before qualifying for a Dismissal or Separation Allowance, the methodology assumes that those employees with the fewest years of service at a particular crew base are those who will be dismissed. Using information provided by Amtrak on actual employees working out of each crew base, the methodology ranks employees at each crew bases by years of service, and a "cumulative percentage of total employees" figure is calculated for each employee from the least senior to the most senior by dividing that employee's rank by the total number of employees at the crew base (or within a particular craft at a T&E crew base). The cumulative percentage of total employees for a particular employee represents the cumulative percentage of employees at a crew base with the same or fewer years of service than the reference employee. The methodology compares the percentage of labor at a crew base associated with each route with the cumulative percentage of employees for each employee at that crew base to estimate what will happen if that Route were to be eliminated. For example, if a particular Route represents 10 percent of total crew base labor (and presumably approximately 10 percent of total labor at that crew base) as in the case of the sample crew base described above, then all those employees below the 10 percent cumulative

[29] Avoidable costs percentages will be calculated by craft type where data on length of service by craft and labor statistics by craft type are both available. Currently, length of service by craft data is available for trainmen and enginemen at T&E crew bases, but is not available for OBS employees.

percentage of employees threshold will be subject to dismissal or separation because they have the least seniority.

For each employee who is subject to dismissal or separation, the methodology uses a combination of information on contract provisions and assumptions about how the two parties, Amtrak and the individual employees, will react in a given situation to estimate what labor protection benefits, if any, each affected employee in the crew base will receive and also the avoidable costs associated with each employee. As a final step, the avoidable costs associated with all employees in the crew base are summed and used to calculate avoidable wage and benefit costs as a percentage of total wages and benefit costs for the crew base (the avoidable cost percentage). Avoidable cost percentages will be calculated annually for each route and crew base for both the short- and long-term time frames. The Route and crew base-specific avoidable cost percentages for a particular Route will be applied to the Fully Allocated costs for all trains that make up that Route at all ResCens that make up the crew base. As previously noted, separate avoidable cost percentages will be estimated for wages and for fringe benefits. Wage avoidable cost percentages will be applied to direct labor Functions, while benefit avoidable costs percentages will be applied to indirect labor Functions as detailed in Table 6-4, Table 6-5, Table 6-6, and Table 6-7.

Table 6-4: T&E Crew Subcategory—Short Term

Function	Function Description	Account	Account Description	Cost Category	Statistic	Statistic Description
		540301	Crew Layover	Avoidable	TEH	Train & Enginemen Labor Hours
		540302	Crew Meals (Payroll)	Avoidable	TEH	Train & Enginemen Labor Hours
		540303	Crew Transportation	Avoidable	TEH	Train & Enginemen Labor Hours
		530761	Road Vehicle Rental	Avoidable	TEH	Train & Enginemen Labor Hours
		530765	Road Vehicle Supplies	Avoidable	TEH	Train & Enginemen Labor Hours
FN1615	Extra Bd Guar. Eng Crew Oper.			Enginemen Wages ST AC %	ELH	Enginemen Labor Hours
FN1633	Psg. Train Enginemen			Enginemen Wages ST AC %	ELH	Enginemen Labor Hours
FN1642	Qualifying Enginemen			Fixed	ELH	Enginemen Labor Hours
FN1616	Extra Bd. Guar. Trainmen			Trainmen Wages ST AC %	TLH	Trainmen Labor Hours
FN1635	Psg. Train Trainmen			Trainmen Wages ST AC %	TLH	Trainmen Labor Hours
FN1643	Qualifying Trainmen			Fixed	TLH	Trainmen Labor Hours
FN1631	Train Operations			Fixed	TEH	Train & Enginemen Labor Hours
FN1601	Transportation Mgmt. & Supervision			Fixed	TEH	Train & Enginemen Labor Hours
FN1617	T&E Overhead			T&E Benefits ST AC %	TEH	Train & Enginemen Labor Hours
FN1689	Train Operations –Special Projects			Fixed	TEH	Train & Enginemen Labor Hours
FN1131	Training Amtrak			Fixed	TEH	Train & Enginemen Labor Hours
FN1234	SAP Payroll Adjustments			Fixed	TEH	Train & Enginemen Labor Hours
FNxxxx	All Other Functions			Fixed	TEH	Train & Enginemen Labor Hours

Table 6-5: OBS Crew Subcategory—Short Term

Function	Function Description	Account	Account Description	Cost Category	Statistic	Statistic Description
		540301	Crew Layover	Avoidable	OLH	On-Board Labor Hours
		540302	Crew Meals (Payroll)	Avoidable	OLH	On-Board Labor Hours
		540303	Crew Transportation	Avoidable	OLH	On-Board Labor Hours
		540306	Crew Meals (F&B Stock)	Avoidable	OLH	On-Board Labor Hours
		540319	Train Supplies-Consumables (OBS)	Avoidable	OLH	On-Board Labor Hours
FN1002	Division Administrative			Fixed	OLH	On-Board Labor Hours
FN1131	Training Amtrak			Fixed	OLH	On-Board Labor Hours
FN1234	SAP Payroll Adjustments			Fixed	OLH	On-Board Labor Hours
FN1301	OBS Management & Supervision.			Fixed	OLH	On-Board Labor Hours
FN1313	OBS Services - Extra Board			Wages ST AC %	OLH	On-Board Labor Hours
FN1315	OBS Services - Overhead			Benefits AC %	OLH	On-Board Labor Hours
FN1321	OBS Dining & Snack			Wages ST AC %	OLH	On-Board Labor Hours
FN1331	OBS Sleeping Car			Wages ST AC %	OLH	On-Board Labor Hours
FN1341	OBS Coach Service			Wages ST AC %	OLH	On-Board Labor Hours
FN1388	OBS Special Projects			Fixed	OLH	On-Board Labor Hours
FN1291	Passenger Inconvenience			Fixed	OLH	On-Board Labor Hours
FNxxxx	All Other Functions			Fixed	OLH	On-Board Labor Hours

Table 6-6: T&E Crew Subcategory—Long Term

Function	Function Description	Account	Account Description	Cost Category	Statistic	Statistic Description
		540301	Crew Layover	Avoidable	TEH	Train & Enginemen Labor Hours
		540302	Crew Meals (Payroll)	Avoidable	TEH	Train & Enginemen Labor Hours
		540303	Crew Transportation	Avoidable	TEH	Train & Enginemen Labor Hours
		530761	Road Vehicle Rental	Avoidable	TEH	Train & Enginemen Labor Hours
		530765	Road Vehicle Supplies	Avoidable	TEH	Train & Enginemen Labor Hours
FN1615	Extra Bd Guar. Eng. Crew Operations			Enginemen Wages LT AC %	ELH	Enginemen Labor Hours
FN1633	Psg Train Enginemen			Enginemen Wages LT AC %	ELH	Enginemen Labor Hours
FN1642	Qualifying Enginemen			Fixed (Avoidable if Single Route)	ELH	Enginemen Labor Hours
FN1616	Extra Bd. Guar. Trainmen			Trainmen Wages LT AC %	TLH	Trainmen Labor Hours
FN1635	Psg. Train Trainmen			Trainmen Wages LT AC %	TLH	Trainmen Labor Hours
FN1643	Qualifying Trainmen			Fixed (Avoidable if Single Route)	TLH	Trainmen Labor Hours
FN1631	Train Operations			Fixed (Avoidable if Single Route)	TEH	Train & Enginemen Labor Hours
FN1601	Transp. Mgmt & Supervision.			Fixed (Avoidable if Single Route)*	TEH	Train & Enginemen Labor Hours
FN1617	T&E Overhead			T&E Benefits LT AC %	TEH	Train & Enginemen Labor Hours
FN1689	Train Ops - Special Projects			Fixed (Avoidable if Single Route)	TEH	Train & Enginemen Labor Hours
FN1131	Training Amtrak			Fixed (Avoidable if Single Route)	TEH	Train & Enginemen Labor Hours
FN1234	SAP Payroll Adjustments			Fixed (Avoidable if Single Route)	TEH	Train & Enginemen Labor Hours
FNxxxx	All Other Functions			Fixed (Avoidable if Single Route)	TEH	Train & Enginemen Labor Hours

Table 6-7: OBS Crew Subcategory –Long Term

Function	Function Description	Account	Account Description	Cost Category	Statistic	Statistic Description
		540301	Crew Layover	Avoidable	OLH	On-Board Labor Hours
		540302	Crew Meals (Payroll)	Avoidable	OLH	On-Board Labor Hours
		540303	Crew Transportation	Avoidable	OLH	On-Board Labor Hours
		540306	Crew Meals (F&B Stock)	Avoidable	OLH	On-Board Labor Hours
		540319	Train Supplies-Consumables (OBS)	Avoidable	OLH	On-Board Labor Hours
FN1002	Division Administrative			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FN1131	Training Amtrak			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FN1234	SAP Payroll Adjustments			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FN1301	OBS Management & Supervision			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FN1313	OBS Services - Extra Board			Wages LT AC %	OLH	On-Board Labor Hours
FN1315	OBS Services - Overhead			Benefits LT AC %	OLH	On-Board Labor Hours
FN1321	OBS Dining & Snack			Wages LT AC %	OLH	On-Board Labor Hours
FN1331	OBS Sleeping Car			Wages LT AC %	OLH	On-Board Labor Hours
FN1341	OBS Coach Service			Wages LT AC %	OLH	On-Board Labor Hours
FN1388	OBS Special Projects			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FN1291	Passenger Inconvenience			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours
FNxxxx	All Other Functions			Fixed (Avoidable if Single Route)	OLH	On-Board Labor Hours

Declaration of Maximilian R. Johnson - Exhibit D

6.4.5 *Logical Assumptions Incorporated into Avoidable Cost Percentage Calculation*

The logic embedded into the methodology for calculating the avoidable cost percentages for operating labor is as follows[30]:

- The elimination of an Amtrak Route constitutes a transaction, which triggers certain LPPs under the existing collective bargain agreement.
- Labor protection benefits are as shown in Table 6-8.

Table 6-8: Length of Protective Period and Amount of Separation Allowance

Years of Service	Full LPP (wages and benefits)	Reduced LPP[31]	Separation Allowance
less than 1	None	None	None
1	None	None	None
less than 2	None	None	None
2	6 months	2 months	6 months
3	6 months	2 months	6 months
3+	12 months	4 months	9 months
4–	12 months	4 months	9 months
5	18 months	6 months	12 months
6	18 months	6 months	12 months
7+	18 months	6 months	12 months
8–	18 months	6 months	12 months
9–	18 months	6 months	12 months
10+	24 months	8 months	12 months
11+	24 months	8 months	12 months
12–	24 months	8 months	12 months
13+	24 months	8 months	12 months
14+	24 months	8 months	12 months
15+	36 months	12 months	12 months
16–	36 months	12 months	12 months
17	36 months	12 months	12 months

[30] These assumptions are not necessarily the way in which Amtrak and/or individual employees will react in a given situation, but are assumptions as to how they logically might behave and are necessary to sufficiently simplify the methodology.

[31] Reduced benefits apply to employees on state-supported trains where the decision to discontinue service is made by the state and not Amtrak. See *In the Matter of the Arbitration between National Railroad Passenger Corporation (Amtrak) and Coalition of Amtrak Unions, Supplemental Award*, Board of Arbitration. May 22, 2002.

Years of Service	Full LPP (wages and benefits)	Reduced LPP[31]	Separation Allowance
18+	36 months	12 months	12 months
19+	36 months	12 months	12 months
20+	48 months	16 months	12 months
21+	48 months	16 months	12 months
22+	48 months	16 months	12 months
23+	48 months	16 months	12 months
24+	48 months	16 months	12 months
25	60 months	20 months	12 months

- Employees with fewer than two years of service do not quality for any benefits.
- Employees with greater than two years of service may choose to resign and receive a lump sum Separation Allowance but no ongoing fringe benefits, or they can receive a Dismissal Allowance and fringe benefits for the duration of their Protective Period. The methodology assumes that employees will choose to receive a Dismissal Allowance rather than a Separation Allowance, even where the Dismissal Allowance and Separation Allowance consist of an equal number of months of wages, because in the former case they will continue to receive fringe benefits during the Protective Period and eventually may have the opportunity to return to work.
- Employees will exhaust their seniority to the extent required to qualify for benefits. The methodology assumes, however, that Amtrak will not require employees to relocate because then contractual Relocation Expenses would be incurred, nor will employees exercise seniority rights outside of their current crew bases or work zones.[32]
- Employees remain under pay status with Amtrak. As a result, they are not eligible for unemployment benefits. Dismissal employees will not receive any other outside earnings during the Protective Period.
- Employees with greater than five years of service receive the full wage for their craft. Wages for beginning employees are 75 percent of full wages and increase five percent per year until they reach the full wage for their craft (after five years).
- Avoidable cost percentages will only be estimated for T&E (operating craft employees) and OBS labor (onboard employees) during the first phase of APT implementation because a close nexus exists between service discontinuance and the dismissal of these employees. Future enhancements of this

[32] Relocation would involve dismissal of employees with relatively less seniority that, to the extent they are entitled to first year benefits, would simply shift the location but not the amount of avoidable costs offsets. To the extent that cost savings would accrue because of lower seniority, they would be reduced by relocation expenses. Since a route elimination would involve effects at crew bases across a region, as a practical matter including relocation effects would likely have little effect on the estimates of avoidable costs.

methodology may estimate avoidable cost percentages for other crafts, especially in the MoE and Station Families and other Operations - Transportation Subfamilies.

- If a discontinuance of service (transaction) and resulting eliminations of employees involve a state-supported route, the model assumes that the decision to discontinue service was made by Amtrak, not the relevant state, and therefore that Dismissed Employees are entitled to benefits for the full Protective Period.
- No adjustment is made for normal labor turnover that would result in the re-hire of Dismissed employees. Future enhancements of this methodology may incorporate historical average turnover rates into the estimating procedure.

6.4.6 Examples of Possible Impacts on Adversely Affected Employees

The following are examples demonstrating how costs for individual employees are estimated in the methodology for including labor protection effects in the estimation of avoidable costs. The examples assume that the employees are subject to Dismissal or Separation because their seniority places them in the group of employees below the relevant "Cumulative Percent of Total Employees" threshold associated with the discontinuation of a particular Route at a particular crew base.

Example 1: Conductor Trainee with 6 months of total continuous service (includes other craft time)
Conductor Trainees are grouped with Conductors for this analysis. A Conductor Trainee with six months of service is not eligible for either a Dismissal Allowance or a Separation Allowance, both of which require at least two years of service.

Example 2: Assistant Conductor with 2 years and 3 months of total continuous service
Assistant Conductors are grouped with Conductors for this analysis. An Assistant Conductor with at least two, but not yet three years of service is eligible for either a Dismissal Allowance of six months wages and benefits or a Separation Allowance of 6 months wages. The methodology assumes that the employee is dismissed and continues to receive wages and benefits for 6 months. A Conductor with 2 years and 3 months of service is assumed to earn 85 percent of the full wage for the Conductor craft.

Example 3: Conductor with 3 years and 6 months of total continuous service
A Conductor with at least 3, but not yet 5 years of service is eligible for either a Dismissal Allowance of 12 months wages and benefits or a Separation Allowance of 9 months wages. The model assumes that the employee is dismissed and continues to receive wages and benefits for 12 months. A Conductor with 3 years and 6 months of service is assumed to earn 90 percent of the full wage for the Conductor craft.

Example 4: Conductor with 10 years of total continuous service
A Conductor with at least ten, but not yet 15 years of service is eligible for either a Dismissal Allowance of 24 months wages and benefits or a Separation Allowance of 12 months wages. The model assumes that the employee is dismissed and continues to receive wages and benefits

for 24 months. A Conductor with 10 years of service is assumed to earn the full wage for the Conductor craft.

Table 6-9 provides details of the calculations of avoidable percentages for employees at a sample OBS crew base.

Table 6-9: Calculation of Avoidable Cost Percentages for a Sample OBS Crew Base

					Short Term						Long Term					
					Wages			Fringe Benefits			Wages			Fringe Benefits		
Years of Service	Employee #	Cumulative %	Affected Employee?	Impact	Avoidable %	% of Full Wage	Avoidable as % of Full Wage	Full Benefits	Avoidable %	Avoidable as % of Full Benefits	Avoidable %	% of Full Wage	Avoidable as % of Full Wage	Full Benefits	Avoidable %	Avoidable as % of Full Benefits
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
2.00	1	0.8%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85%	100%	100%	100%
2.08	2	1.6%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85%	100%	100%	100%
2.00	3	2.4%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85%	100%	100%	100%
	4 - 9															
6.83	10	7.6%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85	100	100	100%
2.75	11	8.4%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85%	100%	100%	100%
2.75	12	9.1%	Yes	Employee Receives 6 Months LPP	50%	85%	43%	100%	50%	50%	100%	85%	85%	100%	100%	100%
3.25	13	10.0%	No	Employee Retains Job	0%	85%	0%	100%	0%	0%	0%	85%	0%	100%	0%	0%
3.33	14	11.0%	No	Employee Retains Job	0	90%	0%	100%	0%	0%	0%	90%	0%	100%	0%	0%
3.22	15	11.8%	No	Employee Retains Job	0%	90%	0%	100%	0%	0%	0	90%	0%	100%	0%	0%
3.70	16	12.6%	No	Employee Retains Job	0%	90%	0%	100%	0%	0%	0%	90%	0%	100%	0%	0%
3.56	17	13.4%	No	Employee Retains Job	0%	90%	0%	100%	0%	0%	0%	90%	0%	100%	0%	0%
3.40	18	14.2%	No	Employee Retains Job	0	90%	0%	100%	0%	0%	0%	90%	0%	100	0	0%
	19 - 124															
35.35	125	98.4%	No	Employee Retains Job	0%	100	0%	100%	0%	0%	0%	100%	0%	100%	0%	0%
0.61	126	99.2%	No	Employee Retains Job	0%	100%	0%	100%	0	0%	0%	100%	0%	100%	0%	0%
37.50	127	100.0%	No	Employee Retains Job	0%	100%	0%	100%	0%	0%	0%	100%	0%	100%	0%	0%

Declaration of Maximilian R. Johnson - Exhibit D

- Shaded lines reflect additional employees whose information is omitted since the table is only for illustrative purposes.
- Years of Service (Column A) is the number of years the employee has been at Amtrak calculated since his or her date of hire.
- Employee # (Column B) is a number assigned to each employee based on his or her Years of Service rank from the most junior (Rank = 1) to the most senior (Rank = 127).
- Cumulative % (of Total Employees) (Column C) for a particular employee represents the cumulative percentage of employees at a crew base with the same or fewer years of service than the reference employee and is calculated for each employee by dividing an employee's Employee # by the total number of employees at the crew base (or within a particular craft at a T&E crew base).
- Affected Employee (Column D) compares the Cumulative % of Total Employees figure for each employee with the percentage of labor at the crew base associated with each route (see Table 6-4) to determine whether an employee will be adversely impacted by the elimination of a route.
- Impact (Column E) details the impact to each employee based on the logical assumptions detailed above.
- Avoidable % (Column F) calculates the percentage of an employee's annual wages that would be avoidable based on the logical assumptions detailed above. For example, an employee receiving a 3-month lump sum Separation Allowance would have an Avoidable % of 75 percent because 75 percent of his annual wages would be avoidable while an employee receiving a Dismissal Allowance for 6 months would have an Avoidable % of 50 percent because 50 percent of his wages would be avoidable on an annual basis.
- Percentage of Full Wage (Column G) represents an employee's estimated wages as a percentage of the full wage for his or her craft. It assumes that an employee with less than 1 year of service earns 75 percent of the full wage for his or her craft and that that percentage increases 5 percent per year until the employee earns the full wage for his or her craft.
- Avoidable as % of Full Wage (Column H) is Column F multiplied by Column G.
- Full Benefits (Column I) represent the fact that employees on the job receive full benefits.
- Avoidable %-Fringe Benefits (Column J) calculates the percentage of an employee's annual fringe benefits that would be avoidable based on the logical assumptions detailed above. For example, an employee receiving a Dismissal Allowance throughout a 6-month Protective Period is also entitled to fringe benefits during those six months and would have a Benefits Avoidable Cost % of 50 percent because 50 percent of his benefit costs would be avoidable on an annual basis.

- Avoidable as % of Full Benefits (Column K) is Column K multiplied by Column L.
- Columns L through Q are calculated in a similar manner to the previous column, although they are based on different logical assumptions taken from LPPs in Amtrak's collective bargaining agreements.

6.5 Statistical Analysis of Avoidable Costs for Mixed Subfamilies

The Subfamilies classified as having mixed costs, such as whose costs are expected to be partly fixed and partly avoidable as train service changes, required further analysis leading to a more complex method for separating a route's Fully Allocated costs into its fixed and avoidable portions. Panel data regression analysis is the statistical method that was chosen for the task of estimating avoidable costs for Mixed Subfamilies.[33] In this method, costs incurred at a ResCen during 1-year periods are explained by activity levels at that ResCen during each of the same time periods. For example, a statistical relationship exists between station costs during a year and TBD at that station during the same year and that statistical relationship can be used to explain avoidable costs for the Stations Family.

The panel datasets for each Subfamily combine cross-sectional and time-series data. The cross-sectional data are the costs and activity levels for all of a Family's ResCens in any given year. The time-series data are the yearly costs and activity levels at those same ResCens for each of Amtrak's FYs 2005–2007. The combination of the cross-sectional and time-series data allow the investigation of how costs change with level of activities from two perspectives, the short run and the long run.

A statistical model, called the fixed-effects model, is used to show the effect of changes in activity level from one period to the period immediately following. This produces a short-run cost function because it shows how costs change at a ResCen within one year of changes in the related activity level at that ResCen. Amtrak ResCens, like any enterprise, face limitations regarding the speed with which costs can be adjusted, which typically allow less flexibility in adjusting costs in the short-run. Many costs, such as those related to real estate, simply cannot be reduced immediately.

In the long run, some costs that were fixed in the short run may often be reduced or avoided. A statistical model called the between-effects model shows the effect of varying activity levels on cost when those activity levels differ among the various ResCens that conduct a specific activity. This relationship represents a long-run cost function. The three year average cost and activity levels show the costs that need to be incurred to conduct the corresponding level of activity when a ResCen has time to make all the necessary adjustments. This estimate shows the total long-run avoidable cost, including both costs that can and cannot be avoided in the short run. As a result, short-run avoidable cost should not be added to this estimate.

[33] The technical details of statistical analysis using panel datasets are provided in Wooldridge, Jeffrey M. *Econometric Analysis of Cross Section and Panel Data*. The MIT Press, October 2001.

Because every Subfamily represents a different type of activity necessary to operate a passenger rail service, each Subfamily's cost function is likely to be unique. Some Subfamilies have costs that can be avoided in the short run, but do not have additional costs that can be avoided in the long run. For these Subfamilies, all costs that are avoidable within any time period can be avoided in the short run. In these cases, it is appropriate to explicitly recognize the equivalence of the short- and long-run cost relationship in the statistical model. The statistical model used in these cases is the random-effects model. The three statistical models used by the methodology to estimate Avoidable Costs, fixed-effects, between-effects and random-effects, are discussed in the following section.

6.5.1 Statistical Models

6.5.1.1 Fixed-Effects Model

The first cost relationship to be estimated is the short-run cost function. Each ResCen changes slightly each year, both in terms of its activity level and its costs. When activity at a ResCen increases or decreases from one year to the next, costs at that ResCen are expected to change as well. On average, cost increases occur in years where activity levels are increasing, while cost decreases occur in years when activity levels are decreasing. Average changes in costs demonstrate the potential for Amtrak to reduce costs within the same year that a route is eliminated.

Estimating a statistical model with pooled cross-section and time-series data, such as without identifying the time periods and ResCens to which the data apply, confounds the short-run and long-run effects. In principle, it is possible to estimate the short-run avoidable cost function for an individual ResCen by using data only for that ResCen. The regression line estimated for these three points would show how changing activity levels from year to year affect annual costs. However, three years of data are not enough to establish a statistically significant short-run cost function. By using a statistical procedure called a fixed-effects panel model, cost and activity data for all of the ResCens included in a Subfamily are used to establish a statistically significant "average" relationship between short-run changes in ResCen costs and activity levels that can be applied to all ResCen within a Subfamily.

The regression equation for the fixed-effects panel model is:

$$y_{it} - \underline{y}_i = b_{0t} - b_1 (x_{it} - \underline{x}_i) + u_{it}$$

where y_{it} – annual cost for ResCen i at time t
$\underline{y}_i$ – average annual cost over all time periods (2005-2007) for ResCen i
x_{it} = activity level for ResCen i at time t
$\underline{x}_i$ – average annual activity level over all time periods (2005-2007) for ResCen i
u_{it} = unexplained residual or error

This model estimates the effect of increasing or decreasing the annual activity level on annual cost for a ResCen in a given Subfamily. Essentially, this methodology produces a statistical relationship that can be used to represent typical cost behavior for many ResCens where there is

not enough data to establish a statistical relationship for each ResCen individually. The statistical results of such a model are sometimes called the "within" estimator, because they do not reflect differences between ResCen, but instead show the effect of changing activity levels on the costs "within" a ResCen.

6.5.1.2 Between-Effects Model

The second cost relationship to be estimated is the long-run cost function. To estimate long-run costs, it is assumed that all ResCens within a Subfamily face a similar relationship between activity and cost but that ResCens differ in their scale of activity, for instance, they are at different points on the cost function. Specifically, the systematic factor explaining different cost levels at different ResCens within a Subfamily is the level of a specific activity that is conducted at each ResCen.

Given this assumption, avoidable costs can be modeled as a function of activity levels at each ResCen. The statistical results of such a model show the effect of activity level on the differences "between" ResCens.

The regression equation for the between-effects panel model is:

$$\underline{y}_i = b_0 + b_1 \underline{x}_i - u_i$$

where $\underline{y}_i$ = average annual cost over all time periods (2005-2007) for ResCen i
$\underline{x}_i$ = average annual activity level over all time periods (2005-2007) for ResCen i
u_i = unexplained residual or error

Regressing average cost on average activity level at ResCens reduces the number of observations to equal the number of ResCens, which removes the short-run effects of year-to-year variation in cost and activity levels from the statistical result. This step is necessary to identify the true long-run response of costs to variation in activity levels, such as a long-run estimate not confounded by the more immediate short-run response.

6.5.1.3 Random-Effects Model

In some cases, the between-effects models and the fixed-effects models result in very similar coefficient estimates. This result suggests that variation in activity levels affect costs nearly equally in the short run and the long run in which case the random-effects model is appropriate. Whereas fixed-effects, between-effects and random-effects models will all produce unbiased and consistent estimates of the statistical relationships between costs and activity in these cases, the random-effects estimator is the most efficient in the sense that it makes the best use of the data to produce the estimator with the lowest standard error. The random-effects model produces estimates of cost avoidability that are a weighted average of the between-effects model and the fixed-effects model, but the estimates produced by this model are only valid if they are not statistically different from the estimates produced by the fixed-effects model. A Hausman test, which tests the validity of the random-effects model by measuring the statistical difference

between the estimators for the fixed-effects and random-effects models, was conducted for all families that show nearly identical long- and short-run cost functions.

Avoidable cost equations were estimated for most Mixed Subfamilies that were expected to have both fixed and avoidable costs. Although all of these Subfamilies had statistically significant avoidable costs in the short run, only some Subfamilies were shown to have additional avoidable costs in the long run, and in these cases, fixed-effects and between-effects panel regression models were estimated to show how these long and short-run costs relationships differ. Other Subfamilies were found to have exhausted their potential to avoid costs once short-run costs are eliminated. This result was established statistically by using the Hausman test, which showed no significant difference occurring between fixed-effects and random-effects models. For these Subfamilies, the long- and short-run effects due to changes in activity level are equal.

6.5.2 Functional Forms

All Amtrak Subfamilies included in the Mixed-Statistical category have been found to have costs that increase with a variable that measures the level of activity at each ResCen, such as total unit trips (TUT) or train frequency (FTT). Some activities required to operate passenger trains exhibit economies of scale—they can be performed more cost-effectively at a large scale, while other activities do not. The estimated relationship between costs and activity levels is unique for each Subfamily. This variety of relationships can sometimes be best modeled by transforming one or both of the variables to the log form, although it is important to recognize how these transformations affect the interpretation of the results.

6.5.2.1 Linear Equation

Models, which explain the absolute value of cost as a function of the absolute activity level, yield statistical results that show a constant relationship between the independent (activity) and dependent (cost) variables. A one-unit change in activity will result in a "B" unit change in cost. This model implies constant marginal costs (i.e., an increase in activity levels has the same effect on costs at both large and small ResCens). Figure 6-1 shows a linear cost function.

General Form: $Y = C + B*X$

where B = regression coefficient
C = constant

Figure 6-1: Linear Regression – Total ResCen Cost



6.5.2.2 Log-Log Equation

Models, which explain the log of cost as a function of the log of activity level, yield statistical results that show the relationship between percentage changes in the activity and cost variables. In the mathematical representation of this function form that follows, a one percent change in activity will result in a "B-" percent change in cost.

General Form: $\ln(Y) = C + B*\ln(X)$

where ln = natural log

When B<1, as is found for many Amtrak Subfamilies, this model implies declining marginal costs.

Figure 6-2 shows a log-log cost function graphically where total cost is a function of the activity variable total unit trips TUT. Figure 6-3 shows that marginal costs are declining with higher activity levels. If B>0, marginal costs are increasing. An increasing marginal cost relationship is not found in any Amtrak Subfamily.

Figure 6-2: Log-log Regression – Total ResCen Cost

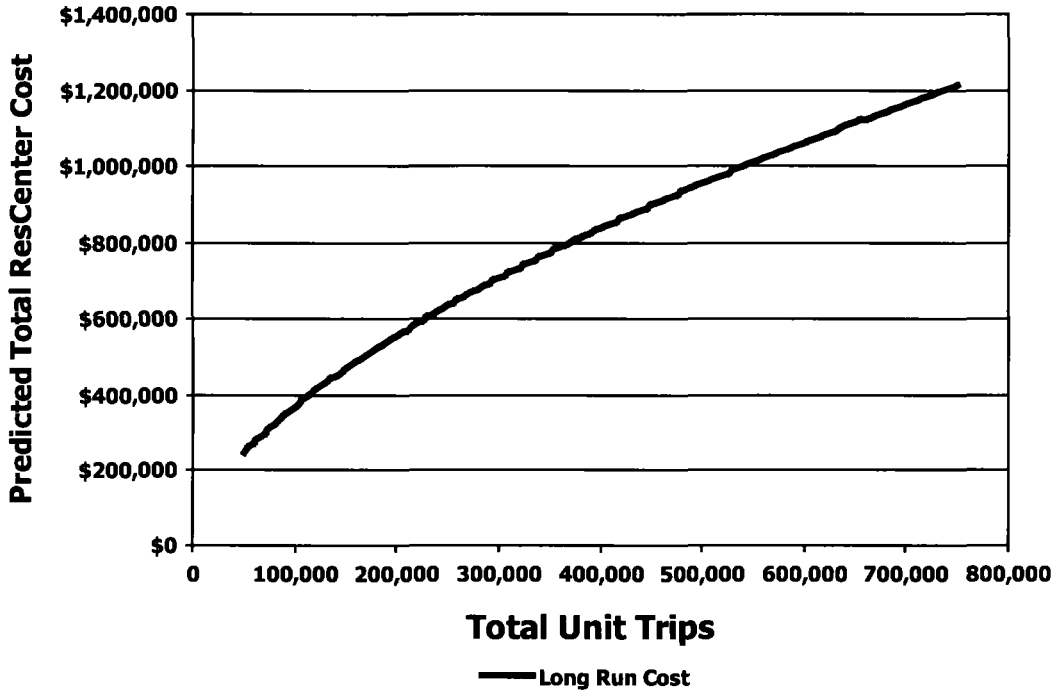
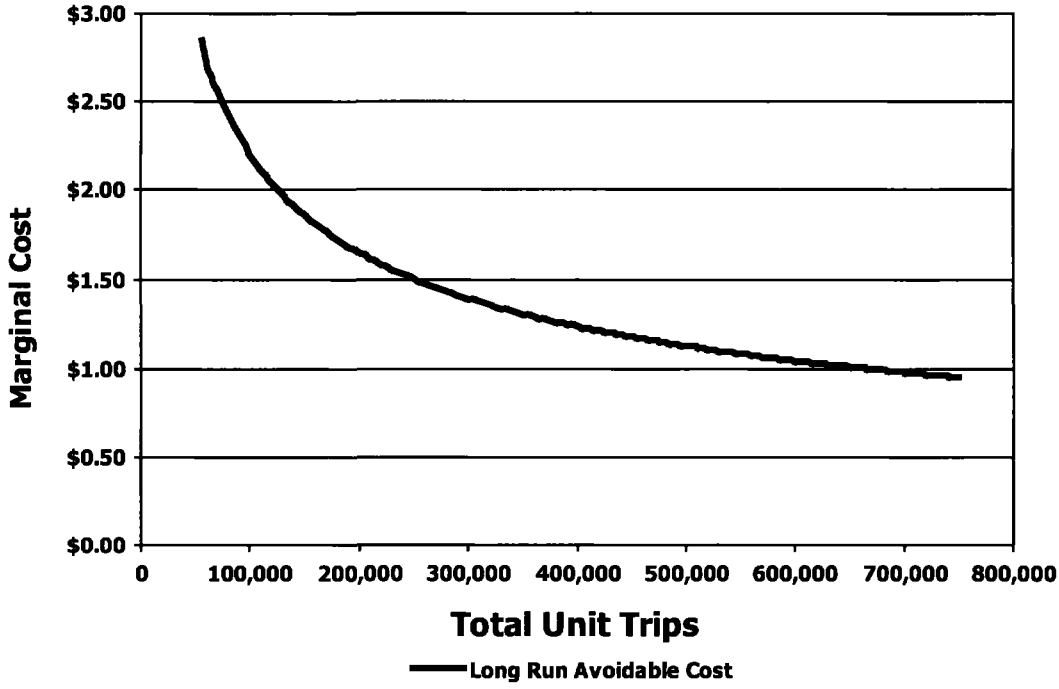


Figure 6-3: Log-log Regression – Marginal Cost of a Unit Trip

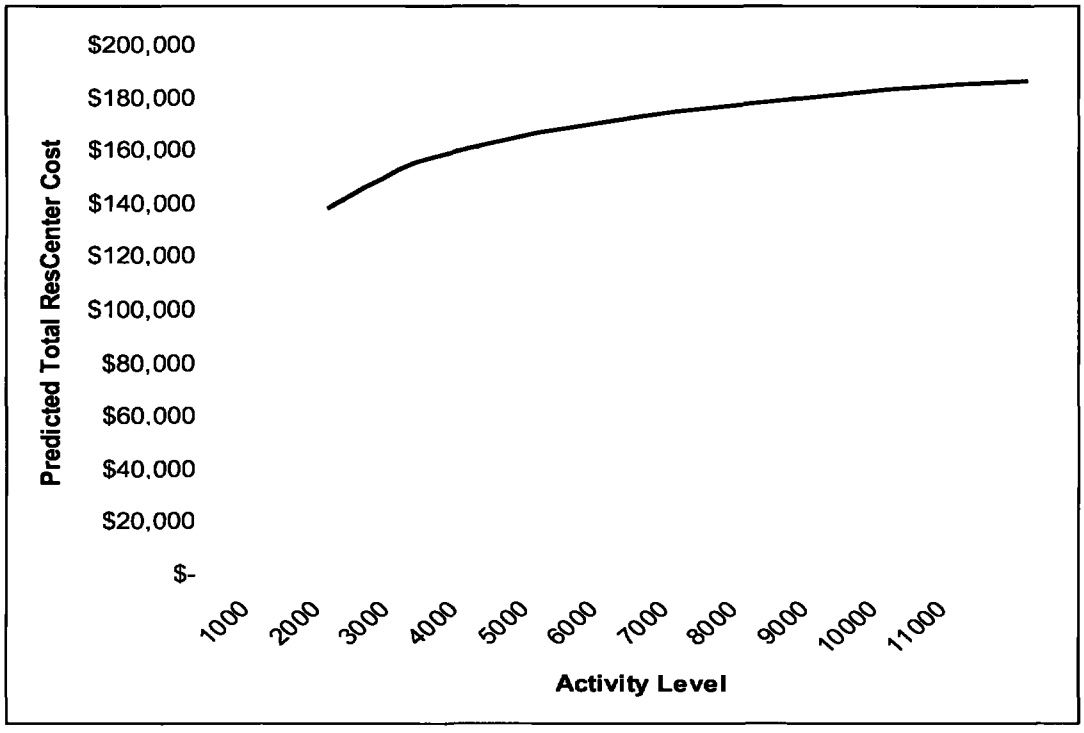


6.5.2.3 Linear-Log Equation

Models, which explain the absolute value of cost as a function of the log of activity level, yield statistical results that show the relationship between a percent change in the activity variable and the absolute value of the cost variable. In the model shown in Figure 6-4, a one percent change in activity will result in a B/100 change in cost. This model implies large economies of scale, such as the potential to increase activity significantly at large ResCens for relatively low additional costs. Such a cost relationship was tested as part of the statistical analysis process, but it was not found to result in the best cost function for any Amtrak Subfamily.

General Form: $Y = C + B*\ln(X)$

Figure 6-4: Linear-log Regression – Total ResCen Cost



6.5.3 *Application of Regression Results*

Estimating the avoidable cost for a given route requires several additional steps. The preferred regression equation that resulted from the statistical analysis is used to predict costs at each ResCen that is affected by a route. These predicted costs are estimated for the current activity level as well as the activity level that would exist if the route were eliminated. The difference between the predicted cost at the current activity level and the predicted cost at the reduced activity level is then used to calculate a percentage change in cost. The percentage change in cost is applied to the actual Fully Allocated cost of the observed ResCen to calculate the Avoidable Cost for that ResCen. This approach is used to assure that the predicted Avoidable Costs are properly scaled at each ResCen. Finally, Avoidable Costs are summed for all ResCens in all Subfamilies that support that route to estimate the Avoidable Costs of discontinuing the route.

6.6 Revenue Losses Offset Avoided Costs

Estimating changes in direct Avoidable Costs at the route level represents only the cost side of Amtrak's business. Removing a route from service will also have an effect on short-run and long-run passenger revenue levels on both the discontinued route and on connecting routes.

These secondary or indirect effects are not included in the recommended methodology for regular reporting of avoidable costs in APT.

7 Methodologies for Estimating Fully Allocated Costs by APT Family

This section describes the essential elements of the methodology for estimating Fully Allocated costs for the 36 individual Subfamilies within APT. The methodology divides Amtrak ResCens and costs into nine Families representing the broad categories of activity, such as MoW and MoE, required to operate a passenger railroad such as Amtrak. Within each Family are one or more Subfamilies. The activities within each Subfamily are of a similar nature and the methodology distributes the costs associated with these activities in a logical and consistent manner.

The report subsections that follow contain separate descriptions of the methods for calculating Fully Allocated costs for each of the individual Subfamilies. The descriptions provide information on the type of work performed in the Subfamily, FY07[34] costs and share of Amtrak total costs for the Subfamily, the Amtrak businesses (including the core passenger rail business) to which costs are allocated, and finally, the allocation rules for allocating costs to Amtrak trains and other businesses. The primary allocation statistic(s) as well as any relevant Stat Qualifiers are also discussed.

In many cases, the cost allocation method indicates that costs are allocated at the national, regional or ResCen level. A national level allocation signifies that costs are allocated to a cost object (train or other Amtrak business or customer) based on that cost object's value for the specified statistic relative to the total systemwide value for that statistic for all cost objects. A regional allocation signifies that costs are allocated to a costs object based on that cost object's value for the specified statistic relative to the total regionwide value for that statistic for all cost objects. A ResCen level allocation signifies that costs are allocated to a costs object based on that cost object's value for the specified statistic relative to the total ResCen value for that statistic for all cost objects.

Each description includes a table containing a brief summary of this information, including the total cost associated with the Subfamily and the main accounting Functions and allocation statistics used.

Importantly, the FY07 costs that are shown for the Subfamilies, except Capital (#700), include all expenditures recorded in FIS for that year, including those that were capitalized. The Capital Subfamily is treated differently from other Subfamilies because the methodology replaces capital costs associated with physical property and equipment with a new synthetic capital charge, which will be calculated by Amtrak according to the method described in this report. Because the capital charge is new, no FY07 costs are shown below in the table for Family #700–Capital. The FIS expenses that would have been classified in this category pertain to depreciation and interest (to be completely replaced by the new capital charge).

[34] Amtrak's Fiscal Year ran from October 1, 2006, to September 30, 2007

The use of the new capital charge also does not alter the methodology's assumption that the costs to be reported in APT for route performance purposes—other than the new capital charge—are only those that are treated as expenses on Amtrak's audited income statement, as was the RPS practice.

As noted above, the expenses reported in the tables reflect total expenditures at ResCens as recorded in FIS for FY07. Some of the expenditures recorded in FIS were not allocated by RPS, but are included here, namely, unallocated Capital expenditures as well as some "Below the Line" costs. The totals in the table therefore do not represent RPS Fully Allocated Costs, nor are they a projection of how costs would be allocated by APT, but are simply a summary of FY07 total expenditures for all ResCens in each Subfamily.

Business types represent the separate businesses within the overall Amtrak enterprise. Each Subfamily table contains a listing of all the businesses to which ResCen costs within that Subfamily are allocated. For example, a table listing NTS, CIA, and COP, indicates that ResCen costs for the corresponding Subfamily will be allocated to Amtrak trains and to commuter agencies that Amtrak either operates (COP) or to which it provides infrastructure access (CIA). The business types that make up the Amtrak enterprise are as follows:

- **National Train Service (NTS):** Amtrak's "core" business of providing intercity passenger train service
- **Commuter Infrastructure Access (CIA)**: Provision of access to Amtrak's track and other facilities to independently operated commuter railroad agencies
- **Commuter Operations (COP):** Operation of commuter service by Amtrak on behalf of outside commuter railroad agencies
- **Freight:** Provision of access to Amtrak's track and other facilities to freight railroads
- **Reimbursable:** Maintenance of infrastructure and equipment performed by Amtrak for freight railroads or other outside enterprises on a reimbursable cost basis
- **Commercial:** Management of Amtrak's property and assets other than for the provision of intercity passenger train service (e.g. retail space, parking garages, air rights, etc.)

The "Top Five Functions" are those Functions that recorded the highest FY07 costs in FIS at the ResCens in each Subfamily.[35] The "Top Three Statistics" are the primary statistics that are used in the new methodology to allocate costs at ResCens located in each Subfamily.[36] The table incorporates several new statistics created as part of the overall methodology development effort, including a placeholder statistic, named "Direct (Unallocated)," which is used to represent

[35] In most cases, these Functions will appear on each Subfamily's Profile (see Appendix A for a full listing). In some cases however, a Function used at a ResCen in FY07 was not included in the new APT profiles due to a change in activity at or modification of Routes serviced by that ResCen. Also included are expenses coded to Functions that were not allocated by RPS and that will not be allocated by APT, such as capital-related Functions.
[36] The expenditures listed in the summary tables are actual FY07 expenditures recorded in FIS. The expenditures associated with each statistic are those that would be allocated using that statistic if those expenditures were to be incurred again and allocated in APT.

expenditures that are not allocated in APT. Examples of these unallocated expenditures are capital expenses and expenses assigned directly to a specific business or customer. This placeholder statistic is abbreviated as "NON" within the APT allocation programming system.

The allocation method for each Subfamily is further defined in Appendix A contained in Volume II of this report. This appendix contains the complete Subfamily Profiles, including the allocation statistics and/or processes for all the Functions (not just the main five) and the list of ResCens comprising each Subfamily.

7.1 MoW Family

7.1.1 MoW Track Subfamily

Family: **MoW - #100**
Subfamily: **MoW Track - #101**

Scope

The MoW Track Subfamily performs maintenance and capital work on track assets along the right-of-way, including the roadbed, rails, cross-ties, ballast, and grade crossings. Most of this work takes place in the Northeast Corridor, although some work is performed outside the NEC on other Amtrak-owned assets or on assets owned by other entities on a reimbursable basis.

Subfamily expenditures for FY07 were $156.9M and accounted for 3.8 percent of Amtrak's total expenditures.

Cost Allocation Method

Cost allocations are at the ResCen level, using Stat Qualifiers to focus costs at a local or regional level. There are several cost types in the Track Subfamily (with varying allocation methods), including direct costs, indirect costs, costs that are assigned directly to a customer or outside agency, and capital expenditures. Direct costs are those coded in FIS to direct cost Functions in the Track Subfamily and identifiable to a specific project by a Work Element Number. These costs are allocated by TUT using a city pair Stat Qualifier. City pair Stat Qualifiers are identified for each ResCen and restrict cost allocations only to trains that travel on that specific segment where the Track work was performed.

Indirect costs are not identified by a Work Element Number and are allocated in a second round by MoW direct costs (MWDC) using a ResCen Stat Qualifier. MWDC is calculated as the sum of all direct Function costs at a ResCen that are allocated to a particular customer. After the direct costs are allocated, MWDC is calculated and indirect costs are allocated to each train or other customer in proportion to its share of MWDC relative to total MWDC for all trains or customers using track maintained by that specific ResCen. All trains traveling on a segment, Amtrak, freight, or commuter, will be automatically identified by the city pair Stat Qualifier as having traveled through that segment and will be allocated direct costs by TUT and indirect costs by MWDC.

Expenses that are direct to a specific customer are identified by specific Functions in the profile, e.g., commuter agencies have exclusive (specific) functions for their direct costs. These costs are allocated by NON (no statistic). The NON statistic does not apportion costs among multiple customers, but rather assigns all costs to the single customer identified for that Function. A few Functions that are assigned directly to customers also require a Work Element Number to identify a specific project and customer. The NON statistic is also used to assign these expenditures directly to a single customer.

Capital functions are used by these ResCens and make up the majority of the Subfamily expenses but are not allocated. These expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses, using these Functions, are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset.

TUT for Amtrak trains is automatically available from the Train Unit Statistic (TUS) system using data from the Operating Management System (OMS). The Audit and Financial Controls group provides TUT for commuters and the Financial Analysis group manually calculates TUT statistics for freights. The preferred allocation statistic for direct costs in the Track Subfamily is gross ton miles (GTM) as track structures are degraded and require repair and maintenance activity based not just on the number of units traveling on that segment of track (TUT), but also by the weight of those units. However, although GTM is available for Amtrak trains, it is unavailable for freight or commuter trains. Until such a time as GTM is available for all trains, TUT will serve as its proxy allocation statistic. Future developments in traffic control information systems may allow Amtrak to automatically collect and maintain freight and commuter activity statistics including GTM.

Summary

Table 7-1 is an overview of the cost allocation for the MoW Track Subfamily.

Table 7-1: MoW Track Subfamily Overview

Subfamily	**MoW Track - #101**		
Subcategory	**MoW Track - General (101_1)**		
FY 2007 Expenditures (Mil.)	$156.9		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable		
Number of ResCens	51		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Road Land & Other Work in Progress (WIP)	3501	$53.9	34.3%
M of W Overhead	1751	$20.8	13.2%
Track Maintenance	1703	$18.4	11.7%
SEPTA Joint Benefit Capital	3077	$17.4	11.1%
M of W Reimbursable	1797	$10.1	6.4%

Subfamily	MoW Track - #101		
Subcategory	**MoW Track - General (101_1)**		
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT	$30.9	19.7%
MoW Direct Costs	MWDC	$27.3	17.4%
Direct (Unallocated)	NON	$98.7	62.9%

7.1.2 MoW Communications & Signal Subfamily

Family: **MoW - #100**
Subfamily: **MoW Communications & Signal - #102**

Scope

The MoW C&S Subfamily performs maintenance and capital work on C&S assets including maintenance of communication systems such as telegraph, telephone, radio systems; train signal and interlocking systems; and communications-related maintenance of buildings, ROW, or other facilities. Most of this work takes place in the NEC, although some work is performed outside the NEC on other Amtrak-owned assets or on assets owned by other entities by reimbursable agreement.

Subfamily expenditures for FY07 were $92.7 million and account for 2.2 percent of Amtrak's total expenditures.

Cost Allocation Method

Cost allocations are at the ResCen level using Stat Qualifiers to focus cost at a local or regional level. Several cost types are in the C&S Subfamily with varying allocation methods including direct costs, indirect costs, costs that are assigned directly to a customer or outside agency, and capital expenditures. Direct costs are coded in FIS to direct cost Functions for direct labor in the C&S Subfamily and identifiable to a specific project by a Work Element Number. These costs are allocated by FTT using a city pair Stat Qualifier. City pair Stat Qualifiers are identified for each ResCen and restrict cost allocations only to trains that travel on that specific segment where the C&S work was performed.

Indirect costs are not identified by a Work Element Number and are allocated in a second round by MWDC using a ResCen Stat Qualifier. MWDC is calculated as the sum of all direct function costs at a ResCen that are allocated to a particular customer. After the direct costs are allocated, MWDC is calculated and indirect costs are allocated to each train or customer in proportion to its share of MWDC relative to total MWDC for all trains and customers operating in the area maintained by that specific ResCen. All trains traveling on a segment, Amtrak, freight, or commuter, will be automatically identified by the city pair Stat Qualifier as having traveled through that segment and will be allocated direct costs by FTT and indirect costs by MWDC.

Expenses that are direct to a specific customer are identified by specific functions identified in the profile, such as commuter agencies have exclusive (specific) functions for their direct costs. These costs will be allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single customer identified for that function. A few functions that are assigned directly to customers also require a Work Element Number to identify a specific project and customer. The NON statistic is also used to assign these expenditures directly to a single customer.

Capital functions are used by these ResCens and make up the majority of the Subfamily expenses but are not allocated. These expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset. Previously, TUT was used to allocate C&S costs, but after discussions and consultation with field personnel, it was determined that FTT is more appropriate as C&S operations relate to a single place and point of time. FTT is available from the TUS system using data from OMS. The Audit and Financial Controls group will provide FTT for commuters and the Financial Analysis/APT group will manually calculate FTT statistics for freights. Future developments in traffic control information systems may allow Amtrak to automatically to collect and maintain freight and commuter activity statistics including FTT.

Summary

Table 7-2 is an overview of the cost allocation for the MoW Communications & Signal Subfamily.

Table 7-2: MoW Communications & Signal Subfamily Overview

Subfamily	**MoW Communications & Signal - #102**		
Subcategory	**MoW C&S General (102_1)**		
FY 2007 Expenditures (Mil.)	$92.7		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable		
Number of ResCens	61		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Signal & Interlocker Maintenance	1713	$21.8	23.5%
Road Land & Other WIP	3501	$18.5	19.9%
M of W Overhead	1751	$12.8	13.8%
Amtrak New Jersey Transit (NJT) Joint Benefit Capital Program	3021	$7.9	8.6%
M of W Reimbursable	1797	$6.3	6.8%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**

Subfamily	MoW Communications & Signal - #102		
Subcategory	**MoW C&S General (102_1)**		
Frequency	FTT	$32.9	35.5%
MoW Direct Costs	MWDC	$18.4	19.8%
Direct (Unallocated)	NON	$41.5	44.7%

7.1.3 MoW Electric Traction Subfamily

Family: **MoW - #100**
Subfamily: **MoW Electric Traction - #103**

Scope

The MoW Electric Traction (ET) Subfamily operates the electric propulsions systems as well as performs maintenance and capital work on the electric transmission assets. These assets include the catenary and support apparatus, transmission systems between power plants and the network, power substations along the corridor, and building and structures that house these systems. Operational costs include salary and benefits for power directors and load dispatchers.

Subfamily expenditures for FY07 were $65.2 million and account for 1.6 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level using Stat Qualifiers to focus cost at a local or regional level. Several cost types are in the ET Subfamily with varying allocation methods including direct costs, indirect costs, costs that are assigned directly to a customer or outside agency, and capital expenditures. Direct costs are those coded in FIS to direct cost Functions for direct labor in the ET Subfamily and identifiable to a specific project by a Work Element Number. These costs are allocated by electric unit miles (EUM) using a city pair Stat Qualifier. Where a ResCen incurs direct function cost within a given city pair segment, costs are allocated to each electric train traveling over that segment in proportion to its share of all trains' EUM within that segment. City pair Stat Qualifiers are identified for each ResCen and restrict cost allocations only to electric trains that travel on that specific segment where the ET work was performed.

Indirect costs are those that cannot be identified by a Work Element Number and are allocated in a second round by MWDC using a ResCen Stat Qualifier. MWDC is calculated as the sum of all direct function costs at a ResCen that are allocated to a particular customer. After the direct costs are allocated, MWDC is calculated and indirect costs are allocated to each customer in proportion to its share of MWDC relative to total MWDC for all customers operating in the area maintained by that specific ResCen. All electric trains traveling on a segment, Amtrak, or commuter, will be automatically identified by the city pair Stat Qualifier as having traveled through that segment and will be allocated direct costs by EUM and indirect costs by MWDC.

Expenditures that are direct to a specific customer are identified by specific functions identified in the profile, commuter agencies or other entities have an exclusive (specific) function for their direct costs. These costs will be allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single customer identified for that function. A few functions that are assigned directly to customer also require a Work Element Number to identify a specific project and customer. The NON statistic is also used to assign these expenditures directly to a single customer.

Capital functions are occasionally used by these ResCens but are not allocated. These expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset.

EUM for Amtrak trains is automatically available from the TUS system using data from OMS. The Audit and Financial Controls group will provide EUM for commuters. Future developments in traffic control systems may allow Amtrak to automatically collect and maintain commuter statistics including EUM.

Summary

Table 7-3 is an overview of the cost allocation for the MoW Electric Traction Subfamily.

Table 7-3: MoW Electric Traction Subfamily Overview

Subfamily	**MoW Electric Traction - #103**		
Subcategory	**MoW Electric Traction - General (103_0)**		
FY 2007 Expenditures (Mil.)	$65.2		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Reimbursable, Commercial		
Number of ResCens	29		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Road Land & Other WIP	3501	$20.2	30.9%
M of W Overhead	1751	$9.0	13.8%
M of W Reimbursable	1797	$6.8	10.3%
Amtrak NJT Joint Benefit Capital Program	3021	$6.2	9.5%
Power Transmission System Maintenance	1718	$4.6	7.1%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
MoW Direct Costs	MWDC	$16.5	25.3%
Electric Locomotive Unit Miles	EUM	$11.4	17.5%
Direct (Unallocated)	NON	$37.3	57.3%

7.1.4 MoW Bridges & Buildings Subfamily

Family: **MoW - #100**
Subfamily: **MoW Bridges & Buildings - #104**

Scope

The MoW Bridges & Buildings Subfamily performs maintenance and capital work on various Amtrak physical assets including tunnels, bridges, culverts, overhead highway bridges, signs, buildings that house facilities for the MoW employees, and office buildings for Amtrak administrative staff. Maintenance costs for station buildings are excluded from the Bridges and Buildings (B&B) Subfamily and are recorded in the Stations Family.

Subfamily costs for FY07 were $62.5 million and account for 1.5 percent of Amtrak's total costs.

Cost Allocation Method

Cost allocations are at the ResCen level using Stat Qualifiers to focus cost at a local or regional level.

Several cost types are in the B&B Subfamily with varying allocation methods including direct costs, indirect costs, costs that are assigned directly to a customer, and capital expenditures. Direct costs are those coded in FIS to direct cost Functions for direct labor in the B&B Subfamily and identifiable to a specific project by a Work Element Number. These costs are allocated by either TUT or FTT using a city pair Stat Qualifier. Where a ResCen incurs direct function cost within a given city pair segment, costs are allocated to each train traveling over that segment in proportion to its share of all trains' TUT or FTT within that segment. City pair Stat Qualifiers are identified for each ResCen and restrict cost allocations only to trains that travel on that specific segment where the B&B work was performed.

Indirect costs are those that cannot be identified by a Work Element Number and are allocated in a second round by MWDC using a ResCen Stat Qualifier. MWDC is calculated as the sum of all direct function costs at a ResCen that are allocated to a particular customer. After the direct costs are allocated, MWDC is calculated and indirect costs are allocated to each customer in proportion to its share of MWDC relative to total MWDC for all customers using B&B maintained by that specific ResCen. All trains traveling on a segment, Amtrak, freight, or commuter, will be automatically identified by the city pair Stat Qualifier as having traveled through that segment and will be allocated direct costs by TUT or FTT and indirect costs by MWDC.

Expenditures that are direct to a specific customer are identified by specific functions identified in the profile, e.g., commuter agencies have exclusive (specific) functions for their direct costs. These costs will be allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single customer identified for that function. A few functions that are assigned directly to customer also require a Work Element Number to identify a specific project and customer. The NON statistic is also used to assign these expenditures directly to a single customer.

Capital functions are used by these ResCens and make up the majority of the Subfamily costs but are not allocated. These expenditures include any capital improvements to extend the life of the assets. Unallocated capital costs using these functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset. Some function costs for repairs to bridges, culverts, and trestles are allocated by TUT. The preferred allocation statistic for direct costs in the B&B Subfamily would be Gross Ton Miles (GTM) as the structures are degraded and thus require repair and maintenance activity based not just on the number of units traveling on bridges (TUT), but also by the weight of those units. However, while GTM is available for Amtrak trains, it is unavailable for freight or commuter trains. Until such a time as GTM is available for all trains, TUT will serve as a proxy allocation statistic. TUT for Amtrak trains is automatically available from the TUS system using data from OMS. The remaining costs for overhead bridges, tunnels, and buildings are allocated by FTT because their work is constrained not by the load of the trains, but the number of trains they must work around. FTT is available from the TUS system using data from OMS. The Audit and Financial Controls group will provide TUT and FTT for commuters and the Financial Analysis/APT group will manually calculate TUT and FTT statistics for freights. Future developments in traffic control information systems may allow Amtrak to automatically collect and maintain freight and commuter statistics including FTT and TUM.

Summary

Table 7-4 is an overview of the cost allocation for the MoW Bridges & Buildings Subfamily.

Table 7-4: MoW Bridges & Buildings Subfamily Overview

Subfamily	**MoW Bridges & Buildings - #104**		
Subcategory	**MoW Bridges & Buildings - General (104_0)**		
FY 2007 Expenditures (Mil.)	$62.5		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	35		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Road Land and Other WIP	3501	$19.6	31.4%
M of W Overhead	1751	$8.2	13.1%
Roadway Bldg Maintenance.	1726	$6.2	9.8%
Station Services-Bldg Maintenance	1281	$4.4	7.1%
M of W Reimbursable	1797	$3.9	6.2%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT	$13.2	21.1%
MoW Direct Cost	MWDC	$11.3	18.0%
Direct (Unallocated)	NON	$30.6	48.9%

7.1.5 MoW Support Subfamily

Family: **MoW - #100**
Subfamily: **MoW Support - #105**

Scope

The MoW Support Subfamily performs general support activities that support all or some of the other MoW Subfamilies (Track, Communications & Signal, Electric Traction, and Buildings & Bridges). These activities include management and supervision; training; dedicated material control shops and procurement; work, wire, and wreck trains; support work for specific capital projects; and related activities.

Subfamily costs for FY07 were $248.1 million and account for 5.8 percent of Amtrak's total costs.

Cost Allocation Method

Cost allocations are at the ResCen level using Stat Qualifiers to focus cost at a local or regional level.

Several cost types are in the MoW Support Subfamily with varying allocation methods including direct costs, indirect costs, costs that are assigned directly to a customer or outside commuter

agency, and capital expenditures. Direct costs are those coded in FIS to direct cost Functions for direct labor in the MoW Support Subfamily and identifiable to a specific project by a Work Element Number. Depending on the type of work, these costs are allocated by Total Unit Trips (TUT), Frequency (FTT), or Electric Unit Miles (EUM using a city pair Stat Qualifier. Where a ResCen incurs direct function cost within a given city pair segment, costs are allocated to each train traveling over that segment in proportion to its share of all trains' TUT, FTT, or EUM within that segment. City pair Stat Qualifiers are identified for each ResCen and restrict cost allocations only to trains that travel on that specific segment where the MoW Support work was performed.

Indirect costs are those that cannot be identified by a Work Element Number and are allocated in a second round by MoW Direct Costs (MWDC) using a ResCen Stat Qualifier. MWDC is calculated as the sum of all direct function costs at a ResCen that are allocated to a particular customer. After the direct costs are allocated, MWDC is calculated and indirect costs are allocated to each customer in proportion to its share of MWDC relative to total MWDC for all customers operating in the area maintained by that specific ResCen. All trains traveling on a segment, Amtrak, freight, or commuter, will be automatically identified by the city pair Stat Qualifier as having traveled through that segment and will be allocated direct costs by TUT, FTT, or EUM and indirect costs by MWDC.

Expenditures that are direct to a specific customer are identified by specific functions identified in the profile, such as commuter agencies, have an exclusive (specific) function for their direct costs. These costs will be allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single customer identified for that function. A few functions that are direct to customer also require a Work Element Number to identify a specific project and customer. The NON statistic is also used to assign these expenditures directly to a single customer.

Capital functions are used by these ResCens and make up the majority of the Subfamily expenditures but are not allocated. These expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these Functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset.

TUT, FTT, and EUM for Amtrak trains are automatically available from the TUS system using data from OMS. Where TUT is used, the preferred allocation statistic would be GTM as MoW structures are degraded and thus require repair and maintenance activity based not just on the number of units traveling on that segment (TUT), but also by the weight of those units. However, while GTM is available for Amtrak trains, it is unavailable for freight or commuter trains. Until GTM is available for all trains, TUT will serve as its proxy allocation statistic. The Audit and Financial Controls group will provide TUT and FTT for commuters and the Financial Analysis/APT group will manually calculate TUT and FTT statistics for freights. Future developments in traffic control systems may automatically incorporate freight and commuter statistics.

Summary

Table 7-5 is an overview of the cost allocation for the MoW Support Subfamily.

Table 7-5: **MoW Support Subfamily Overview**

Subfamily	**MoW Support- #105**		
Subcategory	**MoW Support- General (105_0)**		
FY 2007 Expenditures (Mil.)	$241.8		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable		
Number of ResCens	65		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Road Land & Other WIP	3501	$177.1	73.2%
LIRR Life Safety Capital	3075	$35.5	14.7%
Amtrak NJT Joint Benefit Capital Program	3021	$13.9	5.7%
M of W Reimbursable	1797	$9.8	4.0%
M of W Overhead	1751	$9.2	3.8%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Direct (Unallocated)	NON	$250.5	103.6%
Total Unit Trips	TUT	$8.0	3.3%
MoW Direct Cost	MWDC	-$17.8	-7.4%

7.2 MoE Family

7.2.1 MoE Turnaround Subfamily

Family: **MoE - #200**
Subfamily: **MoE Turnaround - #201**

Scope

The MoE Turnaround Subfamily performs cleaning, inspections, and minor repairs on Amtrak trains and Amtrak-operated commuter trains before each departure and also enroute. Turnaround facilities can work exclusively on cars, locomotives, or both types of equipment. At some locations, turnaround services are performed by outside contractors rather than Amtrak employees. Additionally, Amtrak employees known as "train riders" accompany trains and perform minor enroute repairs as required.

Subfamily costs for FY07 were $113.8 million and account for 2.7 percent of Amtrak's total costs.

Cost Allocation Method

Cost allocations are at the ResCen level to Amtrak trains or Amtrak-operated commuter trains that either begin their trips at or pass through a particular ResCen. Because trains are not always serviced at each turnaround ResCens enroute, a train group is necessary for each turnaround ResCen to identify the specific trains to which costs at a ResCen are allocated. Several types of costs are in the Turnaround Subfamily (with varying allocation methods for each), including costs directly assigned to trains, direct costs, and indirect costs. The Function used to capture "train rider" costs requires a train number to assign costs directly to the appropriate trains. Direct cost Functions are used for direct labor and materials and identify the specific type of work performed. Direct Functions are associated with either car or locomotive servicing and are allocated by car unit trips (CUT) or a locomotive activity statistic, either diesel locomotive units used (DLU) or electric locomotive units used (ELU). At locations that utilize outside contractors, direct costs are not differentiated by equipment type and the statistic TUT is used to allocate costs.

Indirect costs are those that cannot be tied to a particular type of equipment and are allocated in a second round by MoE direct mechanical costs (MDC) using a ResCen Stat Qualifier. MDC is calculated as the sum of direct turnaround costs allocated to a train or other customer at a ResCen. After direct costs are allocated, MDC is calculated and indirect costs are allocated to each train or customer in proportion to its share of total MDC for all trains or customers using turnaround services at that specific ResCen.

Summary

Table 7-6 is an overview of the cost allocation for the MoE Turnaround Subfamily.

Table 7-6: MoE Turnaround Subfamily Overview

Subfamily	**MoE Turnaround - #201**		
Subcategory	**MoE Turnaround - General (201_0)**		
FY 2007 Expenditures (Mil.)	$113.8		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	49		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Car Turnaround Service	1828	$53.2	46.7%
M of E Supervision Clerical & Office	1808	$9.5	8.4%
M of E-Vacation/Holiday/Non-Prod Labor	1815	$9.0	7.9%
Contract Roll Stock Mgt/Maintenance	1851	$7.2	6.3%
M of E Overhead	1814	$6.5	5.7%

Subfamily	MoE Turnaround - #201		
Subcategory	MoE Turnaround - General (201_0)		
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	Code	Expenditures	Percent of Family
Car Unit Trips	CUT	$53.8	47.2%
Mechanical Direct Cost	MDC	$41.1	36.1%
Total Unit Trips	TUT	$7.2	6.3%

7.2.2 Locomotive Maintenance Subfamily

Family: **MoE - #200**
Subfamily: **Locomotive Maintenance - #202**

Scope

The Locomotive Maintenance Subfamily performs maintenance on Amtrak's diesel and electric locomotives. The work performed in this Subfamily includes both preventive maintenance and as-needed maintenance due to locomotive failures, bad orders, freeze damage, and wrecks. No significant capital work is undertaken in this Subfamily; instead, the Backshop Subfamily performs locomotive capital work. Amtrak's Work Management System (WMS) tracks labor and materials costs, the type of work performed, and the specific unit number and equipment type on which maintenance work is performed.

Subfamily expenditures for FY07 were $54.9 million and account for 2.7 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the national level to all trains that utilize the types of equipment being repaired. Amtrak locomotives are maintained at numerous facilities. Since a particular locomotive could be maintained at several different facilities, using the national level allocation approach ensures that the actual location where such equipment is maintained does not affect how maintenance costs for that equipment are allocated to trains. Train activity statistics are used in conjunction with equipment type Stat Qualifiers to ensure that the costs for maintaining a particular equipment type, regardless of the place where it is maintained, are allocated only to trains using that equipment type.

Several cost types are in the Locomotive Maintenance Subfamily, including direct costs, indirect costs, and costs assigned directly to a customer or outside agency. Direct cost Functions are used for direct labor and materials and identify the specific type of work performed. Direct Functions require Work Element Numbers from WMS from which specific locomotive types are inferred. Costs coded to these Functions are allocated using units used (xUU)[37] and unit miles (xUM) statistics for specific types of equipment. UU is used to allocate costs associated with preventive maintenance because preventative maintenance is largely based on time and UU is a time-based

[37] The "x" is a "wildcard" to indicate different codes are used for each equipment type

statistic. UM is used to allocate nonpreventative maintenance costs because such maintenance is based on usage. Direct costs are allocated nationally to all trains that use the corresponding equipment type—these costs are allocated at the national level. Indirect costs in this Subfamily are those for which a particular equipment type cannot be identified. These costs are allocated in a second round by MoE MDC using a ResCen Stat Qualifier. MDC is the sum of direct costs allocated to a train or to another customer at a ResCen. After direct costs are allocated, MDC is calculated and indirect costs are allocated to each train or customer at a ResCen in proportion to its share of total MDC for all trains or customers at that specific ResCen.

Expenditures that are assigned directly to a specific customer, such as a commuter agency, are identified in the Subfamily Profile. These costs are allocated by NON. The NON statistic does not apportion costs among multiple customers but assigns all costs to the single customer identified for that Function. In some cases, a Work Element Number is required to identify the appropriate customer when a general Reimbursable or Recollectable Function is used.

Unallocated capital expenses coded to this Subfamily are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other businesses and customers using that asset.

ResCen 3962, GE Contract Services, performs maintenance on locomotives under contract. Costs incurred at this ResCen are allocated using General Electric Locomotive Units Used (GEU), a new statistic used to calculate the sum of units used for those particular locomotives.

Summary

Table 7-7 is an overview of the cost allocation for the MoE Locomotive Maintenance Subfamily.

Table 7-7: MoE Locomotive Maintenance Subfamily Overview

Subfamily	**Locomotive Maintenance - #202**		
Subcategory	**Locomotive Maintenance - General (202_0)**		
FY 2007 Expenditures (Mil.)	$54.9		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	9		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Contract Roll Stock Mgt/Maintenance	1851	$9.9	18.0%
Locomotive Diesel Bad Orders	1864	$9.3	16.9%
Locomotive Diesel Program Svc	1863	$6.7	12.1%
Locomotive Electric Bad Orders	1823	$4.3	7.8%
Locomotive Electric Program Svc	1822	$3.9	7.1%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**

Subfamily	Locomotive Maintenance - #202		
Subcategory	**Locomotive Maintenance - General (202_0)**		
Mechanical Direct Cost	MDC	$19.0	34.7%
Units Used	UU	$10.8	19.6%
General Electric Locomotive Units Used	GEU	$9.9	18.0%

7.2.3 Car Maintenance Subfamily

Family: **MoE - #200**
Subfamily: **Car Maintenance - #203**

Scope

The Car Maintenance Subfamily performs maintenance on Amtrak's cars, including passenger coaches, dining cars, sleeping cars, and baggage cars. The work performed in this Subfamily includes both preventive maintenance and as-needed maintenance due to car failures, bad orders, freeze damage, and wrecks. No significant capital work is undertaken in this Subfamily; instead, the Backshop Subfamily performs car capital work. Amtrak's WMS tracks labor and materials costs, the type of work performed, and the specific unit number and equipment type on which maintenance work is performed.

Subfamily expenditures for FY07 were $41.7 million and account for 1.0 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the national level to all trains that utilize the type of equipment being repaired. Amtrak cars are maintained at numerous facilities. Since a particular car could be maintained at several different facilities, using the national level allocation approach ensures that the actual location where such equipment is maintained does not affect how maintenance costs for that equipment are allocated to trains. Train activity statistics are used in conjunction with equipment type Stat Qualifiers to ensure that the costs for maintaining a particular equipment type, regardless of the place where it is maintained, are allocated only to trains using that equipment type.

Several cost types are in the Car Maintenance Subfamily, including direct costs, indirect costs, and costs assigned directly to a customer. Direct cost Functions are used for direct labor and materials and identify the specific type of work performed. Direct Functions require Work Element Numbers from WMS from which specific car types are inferred. Costs coded to these Functions are allocated using xUU and Unit Miles (xUM) statistics for specific types of equipment. UU is used to allocate preventive maintenance costs as such maintenance is largely based on time and UU is a time-based statistic. UM is used to allocate nonpreventive maintenance costs as such maintenance is based on usage. Direct costs are allocated nationally to all trains that use the corresponding equipment type—these costs are allocated at the national level. Indirect costs in this Subfamily are those for which a particular equipment type cannot be

identified and are allocated in a second round by MoE MDC using a ResCen Stat Qualifier. MDC is the sum of direct costs allocated to a train or customer at a ResCen. After the direct costs are allocated, MDC is calculated and indirect costs are allocated to each train or customer at a ResCen in proportion to its share of total MDC for all trains or customers at that specific ResCen.

Expenditures that are assigned directly to a specific customer, such as a commuter agency, are identified in the Subfamily Profile. These costs are allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single customer identified for that Function. In some cases, using a Work Element Number is required to identify the appropriate customer when a general Reimbursable or Recollectable Function is used. Where capital Functions are used, they are not allocated. Unallocated capital expenses coded to this Subfamily are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other customers using that asset.

Table 7-8 is an overview of the cost allocation for the MoE Car Maintenance Subfamily.

Table 7-8: MoE Car Maintenance Subfamily Overview

Subfamily	**Car Maintenance- #203**		
Subcategory	**Car Maintenance - General (203_0)**		
FY 2007 Expenditures (Mil.)	**$41.7**		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	8		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Car Program Maintenance.	1829	$13.9	33.3%
Car Bad Orders	1830	$13.2	31.6%
M of E Overhead	1814	$2.7	6.6%
M of E-Vacation/Holiday/Non-Prod Labor	1815	$2.6	6.2%
M of E Supervision Clerical & Office	1808	$2.5	5.9%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Units Used	UU	$15.2	34.0%
Mechanical Direct Cost	MDC	$13.4	32.1%
Unit Miles	UM	$13.2	31.7%

7.2.4 MoE Support Subfamily

Family: **MoE - #200**
Subfamily: **MoE Support - #204**

Scope

The MoE Support Subfamily performs managerial, administrative, material control, and other activities in support of turnaround servicing, rolling stock maintenance and repair, and component work performed in the various Amtrak mechanical shops.

Subfamily expenditures for FY07 were $68.7 million and account for 1.7 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the appropriate Amtrak train, commuter train, or other customers. ResCen and ResCen Group Stat Qualifiers are used to more closely align costs to trains and other customers. Each MoE Support ResCen is assigned a Stat Qualifier that identifies a ResCen or group of ResCens that the MoE Support ResCen supports. The majority of costs in this Subfamily are allocated based on MDC in conjunction with the assigned Stat Qualifier. Costs at a particular MoE Support ResCen are allocated only to a train or customer if that train or customer is associated with one of the ResCen(s) linked to that Support ResCen through a Stat Qualifier. The train or customer at issue receives a portion of the Support ResCen's costs in proportion to its share of total MDC for all trains and customers in that ResCen group.

Amtrak maintains trains for several outside commuter agencies, the costs of which are coded to agency-specific ResCens or Functions. In both cases, these costs are allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to a single customer identified for that Function or ResCen. In some cases, a Work Element Number is required to identify the appropriate customer when a general Reimbursable or Recollectable Function is used.

Capital expenses are occasionally coded to ResCens in this Subfamily but are not allocated or assigned. Unallocated capital expenses coded to this Subfamily are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other customers using that asset.

Summary

Table 7-9 is an overview of the cost allocation for the MoE Support–General Subfamily.

Table 7-9: MoE Support General Subfamily Overview

Subfamily	**MoE Support - #204**
Subcategory	**MoE Support - General (204_0)**
FY 2007 Expenditures (Mil.)	$68.7
Business Types To Which Costs Are Allocated	NTS, CIA, COP
Number of ResCens	93
Top 5 Functions by Expenditures (Dollars, Mil., FY07)	

Subfamily	MoE Support - #204		
Subcategory	**MoE Support - General (204_0)**		
Function	**Code Number**	**Expenditures**	**Percent of Family**
M of E Managerial	1801	$27.1	39.4%
M of E Material Control	1816	$10.4	15.1%
M of E Overhead	1814	$7.0	10.2%
M of E Supervision Clerical & Office	1808	$5.3	7.7%
Road Land & Other WIP	3501	$3.9	5.7%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Mechanical Direct Cost	MDC	$61.0	88.7%
Direct (Unallocated)	NON	$7.6	11.0%

7.2.5 MoE Multiple Subfamily

Family: **MoE - #200**
Subfamily: **MoE-Multiple - #205**

Scope

ResCens in the MoE-Multiple Subfamily do not perform one primary activity, but rather perform multiple mechanical-related activities using various Functions that are typically used in other subfamilies within the MoE Family. The ResCens in this Subfamily perform two or more main activities to a degree that precludes their inclusion in a single Subfamily. The types of activities performed at these ResCens include turnaround servicing, locomotive maintenance, and car maintenance.

Subfamily expenditures for FY07 were $123.4 M and account for 3.0 percent of Amtrak's total expenses.

Cost Allocation Method

The MoE-Multiple Subfamily relies upon the various allocation methods used in the MoE Turnaround, Locomotive Maintenance, and Car Maintenance Subfamilies. In the case of locomotive and car maintenance activities, cost allocations are at the national level to all trains that utilize the type of equipment being maintained. In the case of turnaround servicing activities, costs are allocated at the ResCen level using the same method as in the MoE Turnaround Subfamily.

Several types of costs are in the MoE-Multiple Subfamily, including direct costs, indirect costs, and costs assigned directly to particular train or customers. Direct costs are those costs coded to direct cost Functions. Direct costs Functions are turnaround servicing or maintenance Functions used for direct labor and materials in the MoE-Multiple Subfamily and identify the specific type of work performed.

When turnaround Functions are used, Functions are associated with either car or locomotive servicing and are allocated by CUT or a locomotive activity statistic respectively, either DLU or ELU. At the turnaround servicing locations that utilize outside contractors, direct costs are not differentiated by equipment type and costs are allocated instead by TUT.

Direct car and locomotive maintenance functions require Work Element Numbers from WMS from which specific equipment types are inferred. Costs coded to these Functions are allocated by specific xUU and xUM statistics for specific types of equipment. UU is used to allocate preventive maintenance costs as such maintenance is largely based on time. UM is used to allocate nonpreventive maintenance costs as such maintenance is based on usage. Car and locomotive maintenance direct costs are allocated nationally to all trains that use the corresponding equipment type.

Indirect costs are those for which a particular equipment type cannot be identified and are allocated in a second round by MoE MDC using a ResCen Stat Qualifier. MDC is the sum of direct cost allocated to a train or other customer at a ResCen. After direct costs are allocated, MDC is calculated and indirect costs are allocated to each train or customer at a ResCen in proportion to its share of total MDC for all customers services by that specific ResCen.

Amtrak maintains trains for several outside commuter agencies, the costs of which are coded to agency-specific ResCens or Functions. In both cases, these costs are allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to a single customer identified for that Function or ResCen. In some cases, using a Work Element Number is required to identify the appropriate customer when a general Reimbursable or Recollectable Function is used.

Capital expenses are occasionally coded to ResCens in this Subfamily but are not allocated or assigned. Unallocated capital expenses coded to this Subfamily are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other customers using that asset.

When Turnaround Functions are used in this Subfamily, train groups are needed to identify the specific trains to which costs at a ResCen are allocated since trains are not always serviced at each turnaround ResCen enroute. Activity groups are not required when locomotive or car maintenance Functions are used in this Subfamily because costs for these Functions are allocated nationally to appropriate trains based on the equipment types used by each train.

In other Subfamilies, costs associated with the same activity of Function are allocated using the same or similar statistics and other costs not typically associated with the main Subfamily activity are allocated using a "miscellaneous" rule. In the MoE-Multiple Subfamily however, the diversity of costs within individual ResCens requires a finer level of allocation. For instance, MoE-Multiple ResCen 4753 (Boston MoE Support Shops) performs several activities, including Turnaround Servicing, Car Maintenance, Locomotive Maintenance, and Maintenance Support.

Table 7-10 is an overview of the cost allocation for MOE-Multiple ResCen 4573.

Table 7-10: MoE-Multiple ResCen 4753 – Boston MoE Support

Related Subfamily	FY07 Costs	Share	Allocation Statistic
Turnaround Servicing	$6,110,612	48.7%	CUT
Locomotive Maintenance.	$369,331	2.9%	UU/UM
Car Maintenance.	$1,634,579	13.0%	UU/UM
Maintenance Support	$4,432,264	35.3%	MDC

In their respective families, Turnaround Servicing Function costs are allocated largely by CUT, while Maintenance Function costs are allocated by either UU or UM and Support Function costs are allocated by MDC. If this ResCen had been assigned to the Turnaround Servicing Subfamily, the remaining majority of maintenance costs would have been allocated by the statistic for the Turnaround Servicing miscellaneous rule, in this case CUT. Using a more detailed allocation method within the MoE-Multiple Subfamily allows for a more accurate allocation of costs where ResCens perform multiple activities.

Summary

Table 7-11 is an overview of the cost allocation for the MoE Multiple Subfamily.

Table 7-11: MoE Multiple Subfamily Overview

Subfamily	**MoE-Multiple - #205**		
Subcategory	**MoE-Multiple - General (205_0)**		
FY 2007 Expenditures (Mil.)	$123.4		
Business Types To Which Costs Are Allocated	NTS, CIA, COP		
Number of ResCens	22		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Car Turnaround Service	1828	$40.3	32.6%
Car Program Maintenance.	1829	$15.8	12.8%
Car Bad Orders	1830	$10.1	8.2%
MoE-Vacation/Holiday/Non-Prod Labor	1815	$7.9	6.4%
MoE Supervision Clerical & Office	1808	$7.3	5.9%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Car Unit Trips	CUT	$40.4	32.7%
Mechanical Direct Cost	MDC	$33.0	26.8%
Units Used	UU	$20.6	16.7%

7.2.6 High Speed Rail Maintenance Subfamily

Family: **MoE - #200**
Subfamily: **HSR Maintenance - #206**

Scope

The High Speed Rail (HSR) Maintenance Subfamily performs all activities related to maintaining Amtrak's high speed rail (Acela) equipment, including rolling stock maintenance, turnaround servicing, management, and support activities. Additionally, Amtrak contracts with Alstom to manage material control for Acela trains, including the supply of overhaul packages, scheduled maintenance kits, other maintenance materials, and technical assistance.

Subfamily expenditures for FY07 were $64.1 million and account for 1.5 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level exclusively to Amtrak's high speed Acela trains. All direct maintenance costs are allocated based on the Acela Units Used (ALU) statistic. Because all direct expenses are allocated using a single statistic, indirect and miscellaneous costs also can be allocated at the ResCen level using the same statistic, ALU, and no second round allocation is required. In addition, no Stat Qualifiers are required for this Subfamily.

Table 7-12 is an overview of the cost allocation for the HSR Maintenance Subfamily.

Table 7-12: HSR Maintenance Subfamily Overview

Subfamily	**HSR Maintenance - #206**		
Subcategory	**HSR Maintenance - General (206_0)**		
FY 2007 Expenditures (Mil.)	$64.1		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	6		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
HST Program Service	1853	$13.3	20.7%
HST Bad Orders	1854	$12.5	19.5%
HST Turnaround Servicing	1852	$11.6	18.1%
MoE Managerial	1801	$10.4	16.2%
Contract Roll Stock Mgt/Maintenance	1851	$5.3	8.3%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Acela Express Units Used	ALU	$59.0	92.0%
Direct (Unallocated)	NON	$5.1	8.0%

7.2.7 Backshop Subfamily

Family: **MoE - #200**
Subfamily: **Backshop - #207**

Scope

The ResCens in the Backshop Subfamily perform major repairs and capital overhauls, and produce and repair components. They also perform some minor car and locomotive maintenance and servicing. Amtrak has three Backshop facilities, located in Beech Grove, Indiana; Bear, Delaware; and Wilmington, Delaware. These facilities are functionally and geographically separate from the Car and Locomotive Maintenance Subfamily facilities, which focus on preventative maintenance and noncapital repairs. Amtrak's WMS tracks labor and materials costs, the type of work performed, and specific unit numbers and equipment types on which work is performed.

Subfamily expenditures for FY07 were $202.4 million (inclusive of transfer credits) and accounted for 4.9 percent of Amtrak's total expenses.

Cost Allocation Method

Several major categories of expenditures are recorded in the Backshop Subfamily corresponding to the varied activities performed in this Subfamily. These expense categories include capital expenditures, component expenses, direct maintenance and servicing costs, indirect costs, and expenses assigned directly to customers or other businesses. The largest share of costs in this Subfamily is coded to capital Functions and is not allocated. Capital expenditures in this Subfamily include any expenditure for capital improvements necessary to extend the life of Amtrak rolling stock (specifics are provided in Appendix A, Table A-23, Profile for Subfamily Backshop). Unallocated capital expenses coded to the Backshop Subfamily are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other customers using that asset (see Section 7.7.1, Capital Subfamily).

The next largest category of costs is component expenditures. Component expenditures are costs incurred to rework rolling stock components in preparation for return to the mechanical facilities. If the labor and material costs incurred to rework a component are different from the standard cost used when the component is transferred back to the mechanical facility, a residual balance remains in the Backshop ResCen that still must be allocated. As components themselves are fungible and can be used on many different pieces of equipment, the costs of component repairs are allocated not as other equipment maintenance costs to trains using that equipment type, but as indirect costs as described below.

Indirect costs in the Backshop Subfamily are those that cannot be directly tied to a particular train or equipment type. These costs are allocated in a second round allocation based on total MDC. MDC is the sum of direct mechanical costs allocated to a train or other customer and is calculated after all direct mechanical costs are allocated. Because the majority of costs in the Backshop Subfamily are unallocated capital costs, a portion of indirect costs in the Backshop Subfamily are related to capital work and should also be unallocated. Using billing rates established by Amtrak finance staff, an overhead rate is calculated for the capital costs incurred in the Backshop Subfamily. A credit is then issued to Backshop ResCens for the overhead associated with this capital work. Both indirect costs in the Backshop Subfamily and this credit are allocated to trains using the same method, which achieves the same effect as crediting total Backshop Subfamily indirect costs by the amount of overhead associated with capital work.

Where direct locomotive and car maintenance Functions are used in the Backshop Subfamily, the allocation rules are the same as those in the Locomotive Maintenance and Car Maintenance Subfamilies for the same Functions. Costs for maintaining a certain type of equipment are allocated at the national level to all trains that utilize that type of equipment. Direct costs are recorded to direct maintenance Functions. Direct maintenance Functions identify the specific type of work performed and also are coded with Work Element Numbers from which specific equipment types are inferred. Costs coded to direct maintenance Functions are allocated xUU and xUM statistics for specific equipment types. UU is used to allocate scheduled Backshop

maintenance costs as such costs typically are based on time and UU is a time-based statistic. UM is used to allocate wreck and accident costs as such costs typically are related to usage. Direct costs are allocated nationally to all trains that use the corresponding equipment type.

Amtrak performs Backshop work for several outside commuter agencies, the costs of which are captured using Functions dedicated to an individual commuter agency. These costs are allocated by NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to a single customer identified for that Function or ResCen. In some cases, a Work Element Number is required to identify the appropriate customer when a general Reimbursable or Commuter Function is used.

Summary

Table 7-13 is an overview of the cost allocation for the Backshop Subfamily.

Table 7-13. Backshop Subfamily Overview

Subfamily	**Backshop- #207**		
Subcategory	**Backshop- General (207_0)**		
FY 2007 Expenditures (Mil.)	$202.4		
Business Types To Which Costs Are Allocated	NTS, COP, Reimbursable		
Number of ResCens	40		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Equip-Overhaul	3001	$106.4	52.5%
Component WIP Inventory	1810	$24.1	11.9%
Equip-Remanufacture	3000	$21.9	10.8%
Equip-Other Modifications	3004	$17.7	8.7%
MoE Overhead	1814	$14.0	6.9%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Mechanical Direct Costs	MDC	$43.2	21.3%
Car Unit Miles	CUM	$2.9	1.5%
Direct (Unallocated)	NON	$150.0	74.1%

7.3 Transportation Operations (OPS) Family

7.3.1 Onboard Services (OBS) Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **OBS - #301**

Scope

The Onboard Services (OBS) Subfamily provides customer services onboard passenger trains including food and beverage (F&B), entertainment, and sleeping car services. The Subfamily includes the direct and indirect labor costs of the employees providing such services, the costs of materials and supplies, commissary operation costs, costs for contractors to operate the commissaries, and managerial and overhead costs. The Subfamily consists of four Subcategories: Crew, Supplies-F&B, Commissary/Management-F&B, and Support.

Cost Allocation Method

Subfamily expenditures (for all four Subcategories) for FY07 were $231.4 million and account for 5.6 percent of Amtrak's total expenses.

Many of the costs for this Subfamily are direct labor costs for the OBS crewmembers that are assigned directly to Amtrak trains through the OBS crew Labor Management System (known as LMS). Allocations for indirect labor-related costs are at the ResCen level to Amtrak trains with the allocation statistics depending on the Function used. OBS management and crew-related costs that are not directly assigned to trains, such as extraboard guarantee, benefits, crew meals, crew lodging, crew transportation, overhead, vacation, and holidays, are allocated to trains based on OBS labor hours (OLH) for those trains. Craft-specific labor hours, such as Dining Labor Hours (DLH), are used to allocate indirect labor costs with a corresponding craft-specific Function where possible, in this case FN1321-OBS Dining & Snack.

Commissary costs, including outsourced contract costs paid to Gate Gourmet, Inc. as well as Amtrak management and support costs, are allocated at the ResCen level to the Amtrak trains served by that commissary. Commissary costs are related to the level of food service offered onboard individual trains and are allocated by a statistic that measures the revenues received on each train (Dining Car Revenues or DRV). Each route has its own ResCen for food and beverage costs and indirect costs are allocated by DRV to the trains within that route. Expenditures for food supplies, beverages, crew meals, condemned food, and nonconsumables such as linens are all assigned directly to trains with no need to allocate.

Summary

Table 7-14 is an overview of the cost allocation method for the OBS Subfamily. Greater detail on the cost allocation method for the four Subcategories within this Subfamily can be found in Appendix A.

Table 7-14: OBS Subfamily Overview

Subfamily	**OBS - #301**		
Subcategories	**Crew (301_1), Supplies- F&B (301_2), Commissary/Mgmt.- F&B (301_3), Support (301_4)**		
FY 2007 Expenditures (Mil.)	$231.4		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	120		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
OBS Dining & Snack	1321	$137.1	59.2%
Commissary	1311	$25.2	10.9%
OBS Sleeping Car	1331	$23.1	9.9%
OBS Coach Service	1341	$21.6	9.3%
OBS Management & Supervision.	1301	$10.8	4.7%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Dining Car Revenue	DRV	$145.7	63.0%
Dining Labor Hours	DLH	$25.1	10.9%
Onboard Labor Hours	OLH	$23.1	10.0%

7.3.2 T&E Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **T&E - # 302**

Scope

The T&E Family[38] covers the direct labor and indirect labor-related costs of operating trains. Enginemen are the engineers who operate locomotives, while trainmen are the conductors who are in overall control of trains. Together, they are referred to as the road crew. T&E are attached to one of 59 crew bases. A crew base is a road crew's geographic base of operations and may consist of multiple ResCens broken down by craft or route. Crew bases are where T&E sign in, obtain their manifests, receive briefings and perform administrative tasks. Amtrak T&E crews work on both Amtrak trains and commuter trains operated by Amtrak and their costs are assigned or allocated to both to Amtrak core passenger rail business and its commuter operations business. The T&E Subfamily consists of two Subcategories: Crew and Support. The Crew Subcategory consists of road crews and their immediate supervisors, whereas the Support Subcategory consists of management and supervisory costs.

Subfamily expenditures (for both Subcategories) for FY07 were $272.3 million and account for 6.6 percent of Amtrak's total expenses.

[38] The terms "trainman" and "engineman" are used in a gender-neutral manner to apply to both men and women

Cost Allocation Method

Most of the costs for this Subfamily are direct labor costs for the T&E road crews and are assigned directly to Amtrak trains through Amtrak's crew payroll management system (paperless time ticket or PTT). Every trainman and engineman has a "job symbol," a unique number that identifies the trains, scheduled hours, and pay rate associated with that employee and his position. When a trainman or engineman signs into the PTT system, his or her time is automatically assigned to one or more train that day (Amtrak, commuter, or Reimbursable business-related trains) based on the schedule.

Indirect costs in this Subfamily are also labor-related. Indirect costs include items such as extraboard guarantee, benefits, crew meals, crew lodging, crew transportation, vacation, holidays, other wages, and overhead management and support. These indirect costs are allocated by the level of crew activity for each train. Cost allocations are at the ResCen level with the allocation statistics depending on the Function used. All T&E costs that are not directly assigned to trains, are allocated to trains based on total Trainmen and Enginemen labor hours (TEH) or, where appropriate and feasible, craft-specific labor hours, such as Function 1643 (Qualifying Trainmen) costs are allocated using Trainmen labor hours (TLH). Costs are assigned or allocated to the trains that are served by the T&E attached to a particular ResCen.

Summary

Table 7-15 is an overview of the cost allocation method for the T&E Subfamily. Greater detail on the cost allocation method for the two Subcategories within this Subfamily can be found in Appendix A.

Table 7-15: T&E Subfamily Overview

Subfamily	**T & E - #302**		
Subcategories	**Crew (302_1), Support (302_2)**		
FY 2007 Expenditures (Mil.)	$272.3		
Business Types To Which Costs Are Allocated	NTS, COP		
Number of ResCens	167		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Passenger Train Trainmen	1635	$110.3	40.5%
Passenger Train Enginemen	1633	$79.1	29.0%
T&E Overhead	1617	$39.4	14.5%
Transportation Mgmt & Supervision	1601	$10.1	3.7%
Train Ops-Spec Project	1689	$7.31	2.7%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**

Subfamily	T & E - #302		
Subcategories	**Crew (302_1), Support (302_2)**		
Trainmen Labor Hours	TLH	$115.0	42.3%
Enginemen Labor Hours	ELH	$86.3	31.7%
Trainmen & Enginemen Hours	TEH	$70.9	26.1%

7.3.3 Yard Subfamily

Family: **Ops-Transportation-#300**
Subfamily: **Yard-#303**

Scope

The Yard Subfamily performs activities that support the movement of train equipment in preparation for revenue service. This includes the movement of trains between the yard and station, the makeup and breakup of trains, the movement of equipment to and from mechanical facilities, and the managerial costs related to scheduling the equipment moves and overseeing yard operations. The Yard Subfamily consists of four subcategories, each composed of groups of ResCens with similar missions and activities. While all of the Subcategories perform general operations and activities that properly fall in the Yard Subfamily, the Subcategories provide a finer level of detail for reporting and allocation purposes. The four subcategories are:

- Train & Equipment: the general case of yard ResCens that perform train makeup and breakup in support of transportation operations,
- Equipment Moves: yards that focus primarily on equipment moves in support of mechanical operations in addition to general yard operations,
- Yard Direct: yard ResCens that exclusively support Commuter operations, and
- Terminal Rent/Yard Services: ResCens incur costs paid by Amtrak for yard services performed by outside agencies or railroads.

Subfamily expenditures for FY07 were $55.9 million and account for 1.3 percent of Amtrak's total expenses.

Cost Allocation Method

All of the costs in this Subfamily are labor-related, but unlike T&E road crews, yard crew labor charges are never directly assigned to specific trains. Equipment movements vary daily depending on service changes, mechanical failures, and scheduled maintenance. While most of the costs are allocated to Amtrak trains, several yard ResCens are dedicated to an individual commuter operation and their costs are assigned directly to the appropriate customer. Some yard ResCens service commuter equipment in addition to Amtrak trains, in which case the Activity Group for such ResCens includes both types of customers. All costs are allocated at the ResCen level to an Activity Group particular to the individual location.

TUT is the primary allocation statistic in this Subfamily. In a typical yard ResCen, such as in the Train & Equipment Moves Subcategory, costs are allocated by TUT because trains with more

cars, more locomotives, and more varied types of equipment, ceteris paribus, require more crew time for train makeup and breakup and also are more likely to have mechanical failures. Yards in the Equipment Moves Subcategory require an unusually high level of mechanical support and use an ACK Ratio to split and allocate costs, using both the standard TUT statistic and the MDC statistic to reflect the relatively higher level of maintenance-caused activity. MDC is employed because it is consistent with the method for allocating support in the mechanical Family; the MDC statistic is a measure of the share of direct mechanical expenses incurred by a particular train at a mechanical ResCen relative to total direct mechanical costs at that ResCen. An ACK Ratio is used at yard ResCens in Chicago and New York. The Yard Direct Subcategory includes ResCens whose costs are allocated exclusively to outside commuter agencies, and the Terminal Rent/Yard Services Subcategory includes ResCens whose costs consist largely of terminal rent yard support provided by outside agencies/railroads.

The Yard Subfamily is unique in that the allocation methodology differs depending on the ResCen at issue. Subcategories are used not only to break out different types of costs (as in some other Subfamilies), but, in this case, to define a distinct allocation method. The Subfamily structure was initially created to implement consistent allocation methods across similar ResCens. However, in the case of the Chicago and New York yards, rather than move these ResCens with their unique allocation rules into a new Subfamily, they were kept in the Yard Subfamily but placed in the Equipment Moves Subcategory.

Summary

Table 7-16 is an overview of the cost allocation method for the Yard Subfamily.

Table 7-16: Yard Subfamily Overview

Subfamily	**Yard - #303**		
Subcategories	**Yard Direct (303_1), Train & Equipment Moves (303_2), Equipment Moves (303_3), Terminal Rent/Yard Services (303_4)**		
FY 2007 Expenditures (Mil.)	$55.9		
Business Types To Which Costs Are Allocated	NTS, CIA, COP		
Number of ResCens	29		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Yard Trainmen Operations	1623	$19.2	34.3%
Yard Engine Crew Operations.	1622	$16.6	29.6%
T&E Overhead	1617	$4.8	8.6%
Joint Terminal Facility	1651	$4.7	8.5%
Yardmasters and Clerks	1621	$3.1	5.6%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT		
Total Unit Trips	TUT	$45.3	81.0%
Mechanical Direct Cost	MDC	$10.6	19.0%

7.3.4 Fuel Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **Fuel - #304**

Scope

The Fuel Subfamily records diesel fuel costs for Amtrak trains used in passenger service and for certain commuters. Costs incurred at ResCens in this Subfamily are the costs of fuel only; no labor or other costs are recorded in the Subfamily. Some diesel fuel-related costs are not coded in FIS to the ResCens in this Subfamily. For example, costs for diesel fuel purchased from other railroads used to fuel Amtrak trains are recorded in the Ops-Transportation: Train Movement-Host RR Subfamily, while costs associated with fuel hedging activities are incurred in RC0802—Treasury Mandatory—located in the G&A Corporate Administration Subfamily.

Subfamily costs for FY07 were $121.2 million and account for 2.9 percent of Amtrak's total costs.

Cost Allocation Method

Fuel costs are allocated exclusively by the statistic diesel power usage factor (DPUF) using a national allocation. Costs are allocated based on train's systemwide DPUF, not its DPUF attributable to a particular region or ResCen. DPUF is a new calculated statistic that incorporates factors such as a train's weight, trip length, trip time, locomotive type, and car types, as well as certain track and terrain characteristics. Fuel costs at commuter-specific ResCens are assigned directly to the relevant commuter agencies. Although costs for diesel fuel purchased from other railroads and for fuel hedging activities are recorded in other Subfamilies, they are nevertheless allocated using the same method specified for this Subfamily.

The national allocation of fuel to all diesel trains in this methodology replaces Amtrak's ResCen allocation method in RPS that combined fixed allocation percentages for short- and long-distance trains with an allocation by the gallons consumed (GLC) statistic. The previous allocation resulted in inaccurate results if trains fueled at multiple ResCens—an operating practice that often occurred. The national allocation removes this inaccuracy by creating a single activity group and also uses an improved allocation statistic.

Summary

Table 7-17 is an overview of the cost allocation method for the Fuel Subfamily.

Table 7-17: Fuel Subfamily Overview

Subfamily	**Fuel - #304**		
Subcategory	**Fuel - General (304_0)**		
FY 2007 Expenditures (Mil.)	$121.2		
Business Types To Which Costs Are Allocated	NTS, COP		
Number of ResCens	45		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Train Operations	1631	$119.0	98.2%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Diesel Power Usage Factor	DPUF	$121.2	100%

7.3.5 Transportation – Multiple Subfamily

Family: **Ops-Transportation- #300**
Subfamily: **Transportation-Multiple- #305**

Scope

ResCens in the Transportation-Multiple Subfamily perform various Ops-Transportation activities using FIS Functions that are typically used in other Subfamilies. The ResCens in this Subfamily

performs two or more main activities to a degree that precludes their inclusion in a single Subfamily. The types of activities performed at these ResCens include Functions that would otherwise be located in the T&E, OBS, Transportation Support, Station Operations, and Yard Subfamilies.

Subfamily expenditures for FY07 were $35.0 million and account for 0.8 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations for ResCens in this Subfamily are performed at the ResCen and Function levels and in some cases at the Account level. There is no primary allocation statistic for this Subfamily; the statistic used for each allocation is dependent on the Function and Account information coded to the expense record. Statistics used in this Subfamily include, but are not limited to, TEH, OLH, crew hours (CRH), TUT, and TBD. The Subfamily serves both Amtrak and commuter trains, but specific customers and Activity Groups will be determined at each individual ResCen.

In other Subfamilies, expenses associated with the same activity or Function are allocated using the same or similar statistics and other expenses not typically associated with the main Subfamily activity are allocated using a "miscellaneous" rule. In the Transportation-Multiple Subfamily however, the diversity of expenses within individual ResCens requires a finer level of allocation. For instance, ResCen 2834 (Asst Supt Passenger Svc NW Dist) performs both OBS activities as well as Station operations activities. OBS-related activity accounted for nearly 70 percent of expenses, while Stations-related activity accounted for the remaining 30 percent.

Table 7-18 summarizes expenses for MOE-Multiple ResCen 2834–Asst Supt Passenger Svc NW Dist

Table 7-18: ResCen 2834-Asst Supt Passenger Svc NW Dist

Related Subfamily	FY07 Expenses	Share	Allocation Statistic
OBS	$567,956	69.4%	OLH
Stations	$249,880	30.6%	TBD

In their respective families, OBS Function expenses are allocated by OBS crew hours (CRH), while Stations Function expenses are allocated by TBD. If this ResCen had been assigned to the OBS Subfamily, the remaining 30 percent in Stations-related expenses would have been allocated by the statistic for the OBS miscellaneous rule, in this case OLH. Using a more detailed allocation method within the Transportation-Multiple Subfamily allows for a more accurate allocation of costs where ResCens perform multiple activities.

Summary

Table 7-19 is an overview of the cost allocation method for the Transportation–Multiple Subfamily.

Table 7-19: Transportation-Multiple Subfamily Overview

Subfamily	**Transportation–Multiple - #305**		
Subcategory	**Transportation–Multiple - General (305_0)**		
FY 2007 Expenditures (Mil.)	$35.0		
Business Types To Which Costs Are Allocated	NTS, CIA, COP		
Number of ResCens	9		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Passenger Train Trainmen	1635	$7.7	22.2%
Passenger Train Enginemen	1633	$5.0	14.3%
OBS Management & Supervisors	1301	$4.4	12.6%
Trans. Management & Supervisors	1601	$3.4	9.8%
T&E Overhead	1617	$2.2	6.4%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Trainmen Labor Hours	TLH	$8.0	22.8%
Enginemen Labor Hours	ELH	$5.3	15.1%
Onboard Labor Hours	OLH	$4.7	13.4%

7.3.6 Train Movement Subfamily

Family: **Ops-Transportation - #300**
Subfamily: **Train Movement - #306**

Scope

The Train Movement Subfamily performs activities associated with moving passengers from endpoint to endpoint. This includes managing train dispatching, signal or interlocking operations, and connecting bus service. The Subfamily includes the Centralized Electrified Traffic Control Center (CETC) offices, Consolidated National Operations Center (CNOC), block operators at various locations, and staff responsible for setting and enforcing operating rules and standards.

Subfamily expenditures for FY07 were $69.2 million and account for 1.7 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the appropriate Amtrak trains, freight, and commuter customers. The primary allocation statistic for the Subfamily is FTT, allocating train movement expenses to trains based on the number of trips made on the network. This Subfamily uses a city pair Stat Qualifier to allocate ResCen expenses to trains operating over particular portions of the Amtrak network. Using a city pair Stat Qualifier allows ResCen expenses to be allocated to all trains that travel over a specific area (set of city pairs) without the need for Activity Groups, which would need to be periodically updated. As FTT is automatically available from OMS at the city pair level, the Stat Qualifier will automatically allocate costs to all trains that travel over a specified segment. Once the city pairs for a ResCen are defined, the particular trains, receiving a share of costs, change dynamically depending on actual monthly operations.

Summary

Table 7-20 is an overview of the cost allocation method for the Train Movement Subfamily.

Table 7-20: Train Movement Subfamily Overview

Subfamily	**Train Movement - #306**		
Subcategory	**Train Movement - General (306_0)**		
FY 2007 Expenditures (Mil.)	$69.2		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight		
Number of ResCens	35		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
	Code Number	**Expenditures**	**Percent of Family**
Caltrans Bus Services	1648	$21.4	30.9%
Train Dispatching	1632	$13.9	20.1%
Signal & Interlocker Operation	1634	$11.8	17.1%
Transportation Management & Supervision	1601	$9.7	14.0%
Qualifying Block & Tower	1637	$1.9	2.7%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Frequency	FTT	$68.4	98.8%
Total Unit Trips	TUT	$0.5	0.7%
Baggage Units Demanded	BGU	$0.2	0.3%

7.3.7 Train Movement-Host RR Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **Train Movement - Host RR - #307**

Scope

The Train Movement-Host RR Subfamily captures the costs incurred by Amtrak for services provided by the freight railroads, including infrastructure access, renting or leasing freight locomotives, purchased fuel, repairs to Amtrak rolling stock, dispatching and signal services, and station costs. Also included are incentive payments to host railroads for adherence to scheduled departure and arrival times.

Subfamily expenditures for FY07 were $91.9 million and account for 2.2 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the appropriate Amtrak trains and commuter customers. The primary statistic for the Subfamily is total train miles (TTM), allocating host railroad costs to trains or commuter customers based on their share of train miles traveled over a railroad's territory. This Subfamily uses a railroad-type Stat Qualifier to allocate ResCen expenses to trains operating over specified portions of each host railroad's network. A railroad Stat Qualifier is the combination of city pairs that make up the geographic area of each host railroad. TTM is available at the city pair level and an individual train's proportion of all train activity over that city pair can be determined. This information is then used to allocate costs to a set of trains for each ResCen associated with that city pair.

Using a railroad Stat Qualifier allows for the allocation of ResCen expenses to all trains or commuter customers that travel over a host railroad's network without the need for Activity groups, which would need to be periodically updated. As TTM is automatically available from OMS at the city pair level, the Stat Qualifier automatically allocates cost to all trains that travel over a specified segment. Once a set of city pairs is defined for a ResCen, the particular trains, receiving a share of cost, change dynamically depending on actual monthly operations.

Table 7-21 is an overview of the cost allocation method for the Train Movement-Host RR Subfamily.

Table 7-21: Train Movement-Host RR Subfamily Overview

Subfamily	**Train Movement - Host RR - #307**		
Subcategory	**Train Movement - Host RR - General (307_0)**		
FY 2007 Expenditures (Mil.)	$91.9		
Business Types To Which Costs Are Allocated	NTS, COP		
Number of ResCens	28		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Railroad Track & Roadway	1711	$37.8	41.2%
Railroad Incentives & Avoidable Cost	1691	$16.5	17.9%

Subfamily	Train Movement - Host RR - #307		
Subcategory	**Train Movement - Host RR - General (307_0)**		
Transportation Operations Railroad	1641	$16.0	17.4%
Train Operations	1631	$12.9	14.1%
R.R. Unallocated	1161	$5.6	6.1%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Train Miles	TTM	$89.6	97.6%
Total Boards and Deboards	TBD	$1.1	1.3%
Total Locomotive Unit Miles	TLM	$0.7	0.8%

7.3.8 Transportation Support Subfamily

Family: **Ops -Transportation - #300**
Subfamily: **Transportation Support - #308**

Scope

The Transportation Support Subfamily performs supervision and support for the operation of passenger train service. The Subfamily includes the costs of general and assistant superintendents, railroad foremen, assistant foremen, and other transportation-related activities. ResCens in the Transportation Support Subfamily support other Ops–Transportation ResCens that directly perform transportation services.

Subfamily expenditures for FY07 were $80.7 million and account for 1.9 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the appropriate Amtrak trains, freight, or commuter customers. The primary allocation statistic is TUT, allocating costs to trains or other customers based on their share of units traveling over the network. This Subfamily supports train activity, but does not provide direct train operations. For this reason, the Subfamily uses a ResCen group Stat Qualifier to allocate costs. A ResCen group Stat Qualifier allocates expenses from a Transportation Support ResCen to trains that are directly serviced at ResCens that are supported by that Transportation Support ResCen. The Stat Qualifier dynamically creates a pool of trains that are indirectly supported by the Transportation Support ResCen and allocates costs based on a particular train's share of TUT.

As in other Subfamilies, the statistic Total Passenger Miles (TPM) is used to allocate passenger inconvenience costs, but directly coding such costs to the appropriate trains is the preferred method and the future Amtrak goal.

Summary

Table 7-22 is an overview of the cost allocation method for the Transportation Support Subfamily.

Table 7-22: Transportation Support Subfamily Overview

Subfamily	**Transportation Support - #308**		
Subcategory	**Transportation Support - General (308_0)**		
FY 2007 Expenditures (Mil.)	$80.7		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight		
Number of ResCens	104		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Transportation Management & Supervision	1601	$40.6	50.3%
Division Administrative	1002	$10.1	12.5%
Corporate Service Centers	1121	$3.8	4.7%
Road Land & Other WIP	1123	$2.6	4.5%
Corporate Administration	1291	$1.8	3.8%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT	$78.5	93.4%
Passenger Total Miles	TPM	$1.8	2.2%
Direct (Unallocated)	NON	$3.6	4.5%

7.3.9 Power-Electric Traction Subfamily

Family: **Ops-Transportation - #300**
Subfamily: **Power-Electric Traction - #309**

Scope

The Power-Electric Traction Subfamily captures the direct cost of powering electrified train service on the NEC and the Keystone route. The corridor is divided into northern and southern segments (north and south of New York City, respectively) with Amtrak purchasing power from 10 vendors on the entire corridor, as well as from commuter agency Metro North for the portion of the NEC between New Rochelle, NY, and New Haven, CT. In addition to purchasing electric power, Amtrak is reimbursed through agreements by commuter rail agencies for their power consumption on the southern segment, though this is treated as a revenue transaction.

Subfamily expenditures for FY07 were $100.2 million and account for 2.4 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to all trains traveling over the segment served by each ResCen. As the three ResCens in this Subfamily each serve a particular area, the allocation is regionally-based. Costs at ResCen 0738 (Northend Propulsion) are allocated to trains on the northern segment of the NEC (except for the 56 miles of Metro North-owned track between New Rochelle, NY, and New Haven, CT) using the statistic Electric Power Usage Factor (EPUF). EPUF estimates power consumed by a train based on distance, car weight, and "hotel" power for onboard services. A station pair Stat Qualifier called "Electric North" is used to allocate costs only to those trains that travel on the individual segments specified by the Stat Qualifier.

Costs as ResCen 0739 (Southend Propulsion) are allocated to trains on the southern segment of the NEC, including the Keystone Corridor, by EPUF using an ACK Ratio in combination with a station pair Stat Qualifier. Four commuter agencies operate electric train service on the southern segment, but the limited operational data that they provide to Amtrak does not allow for their allocation by EPUF. A study by SYSTRA Consulting, Inc. simulated electric power usage by NEC users and a Customer Electric Percentage (CEP) for each was estimated from this data. These percentages are used as the factors in an ACK Ratio that splits ResCen 0739 costs among Amtrak and the other southern segment commuter operators. Amtrak's share of costs, 49 percent, is then allocated to Amtrak trains using EPUF, stat qualified at the station pair level. A station pair Stat Qualifier called "Electric South" is used to allocate costs to only those trains that travel on the individual segments specified by the Stat Qualifier. For the percentage assigned to each commuter agency, the costs are allocated by the NON statistic. The NON statistic does not apportion costs among multiple trains or customers, but directly assigns previously designated costs (in this case designated by the CEP using the ACK ratio) to a single customer. Table 7-23 summarizes CEP by user.

Table 7-23: Southend Customer Electric Percentages (CEP) by User

Amtrak	MARC	NJT	SEPTA	DelDOT
0.490	0.040	0.360	0.105	0.005

Costs at ResCen 0740 (Power Purchased from RR) consists of power expenses paid to Metro North incurred for the Amtrak trains using its 56 miles of track between New Rochelle, NY, and New Haven, CT. Amtrak is billed for these costs based on each train's Total Unit Miles (TUM) and for consistency purposes these expenses are allocated to its trains in the same manner. A "MetroNorth" station pair Stat Qualifier is used to calculate each Amtrak train's TUM within the 56 mile Metro North segment.

Some expenditures at ResCen 0739 are recorded with Account 510419 (Electricity Hedge Settlement) and are allocated to specific Amtrak passenger trains by EPUF with the Stat Qualifier "AmtrakElectric," which incorporates Amtrak's entire electrified network.

Because the SYSTRA study calculated CEP using service level estimates at a point in time, the ACK Ratios used to allocate costs in this Subfamily will need to be updated as new estimates are made or as commuter agencies adjust service levels.

Summary

Table 7-24 is an overview of the cost allocation method for the Power-Electric Traction Subfamily.

Table 7-24: Power-Electric Traction Subfamily Overview

Subfamily	**Power- Electric Traction - #309**		
Subcategory	**Power- Electric Traction - General (309_0)**		
FY 2007 Expenditures (Mil.)	$100.2		
Business Types To Which Costs Are Allocated	NTS. CIA		
Number of ResCens	3		
Top 2 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Train Operations	1631	$98.2	98.0%
Road Land & Other WIP	3501	$1.9	2.0%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Electric Power Usage Factor	EPUF	$90.7	90.6%
Total Unit Miles	TUM	$7.5	7.5&
Direct (Unallocated)	NON	$2.0	2.0%

7.4 Sales and Marketing Family

7.4.1 Sales Subfamily

Family: **Sales & Marketing - #400**
Subfamily: **Sales - #401**

Scope

The Sales Subfamily is responsible for such activities as field sales, sales administration, travel agent services, and commercial account services and includes expenditures for travel agency commissions, credit card commissions, and airline system access fees.

Subfamily expenditures for FY07 were $23.9 million and account for 0.6 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level using Function and Account information to spread Sales Subfamily expenditures to all Amtrak trains. As Sales activities and expenditures are driven by the number of tickets sold for a service, most costs are allocated to all Amtrak trains based in proportion to their share of total riders (TRD). Within Function 1201 Sales, Account data is used to separate those expenditures related to travel agent commissions and airline reservation system access expenditures. These expenditures are allocated by travel agent sales (TAS), a manual statistic available from the Train and Earnings System that calculates the level of sales by outside travel agents.

Summary

Table 7-25 is an overview of the cost allocation method for the Sales Subfamily.

Table 7-25: Sales Subfamily Overview

Subfamily	**Sales - #401**		
Subcategory	**Sales - General (401_0)**		
FY 2007 Expenditures (Mil.)	$23.9		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	7		
Top 4 Function by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditure**	**Percent of Family**
Sales	1201	$12.7	53.1%
Marketing Admin	1210	$1.0	4.4%
Corporate Service Centers	1121	$0.9	3.8%
Marketing Support	1225	$0.6	2.7%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditure**	**Percent of Family**
Total Riders	TRD	$8.6	35.9%
Travel Agent Sales	TAS	$7.1	29.8%
Direct (Unallocated)	NON	$8.2	34.3%

7.4.2 Information & Reservations Subfamily

Family: **Sales & Marketing - #400**
Subfamily: **Information & Reservations - #402**

Scope

The Information & Reservations Subfamily provides reservation services to both the general public as well as interacting with outside travel agency reservations and information service

systems. The Subfamily captures the costs of reservation sales call centers (RSCC) as well as the costs of the operating information systems required for Amtrak reservation services.

Subfamily expenditures for FY07 were $83.6 million and account for 2.0 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level and costs are spread to all Amtrak trains. The exclusive allocation statistic for the Information & Reservations Subfamily is usage time (talk time) for reservations sales office operations (RSO), which assigns Information & Reservations costs to Amtrak routes based on the share of talk time at RSCCs spent booking reservations for each route relative to total talk time. RSO is calculated based on a 3-month rolling average talk time survey of calls at RSCCs.

Summary

Table 7-26 is an overview of the cost allocation method for the Information & Reservations Subfamily.

Table 7-26: Information & Reservations Subfamily Overview

Subfamily	**Information & Reservations - #402**		
Subcategory	**Information & Reservations - General (402_0)**		
FY 2007 Expenditures (Mil.)	$83.6		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	8		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Reservations	1221	$42.0	50.2%
Reservations Management Administration	1220	$25.4	30.4%
Corporate Service Centers	1121	$5.4	6.4%
Reservations Special Services	1219	$3.5	4.2%
Ticketing-CTO and TBM	1223	$0.6	0.7%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
RSCC Talk Time	RSO	$77.9	93.2%
Direct (Unallocated)	NON	$5.7	6.8%

7.4.3 Marketing Subfamily

Family: **Sales and Marketing - #400**
Subfamily: **Marketing - #403**

Scope

The Marketing Subfamily performs marketing and sales support activities for Amtrak's core passenger rail business. Activities include market research, customer relations, general advertising, telephone directory advertising, production of timetables, and sales promotions. Some marketing efforts are focused on specific Amtrak routes.

Subfamily expenditures for FY07 were $57.5 million and account for 1.8 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level. Some ResCens in this Subfamily are systemwide in scope and are responsible for marketing for all routes, whereas others correspond to broad regions or, in some cases, individual routes. In these latter cases, costs are allocated to specific routes for ResCens as appropriate to the specific case.

All Function expenditures in this Subfamily are allocated using the passenger revenue (PRV) statistic. The use of PRV allocates more costs to routes with higher passenger revenues on the grounds that more marketing efforts are focused on these services. Although the ResCens in this Subfamily vary in their scope, Amtrak marketing staff confirmed that activities and costs at these ResCens are roughly proportional to route revenues.

Summary

Table 7-27 is an overview of the cost allocation for the Marketing Subfamily.

Table 7-27: Marketing Subfamily Overview

Subfamily	**Marketing - #403**		
Subcategory	**Marketing - General (403_0)**		
FY 2007 Expenditures (Mil.)	$57.5 M		
Business Types To Which Costs Are Allocated	NTS		
Number of ResCens	20		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditure**	**Percent of Family**
Advertising	1211	$28.1	48.9%
Marketing Support	1225	$13.8	24.0%
Marketing Admin	1210	$6.3	10.9%
Corporate Service Centers	1121	$3.5	6.1%
Sales	1201	$2.2	3.8%
Top2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditure**	**Percent of Family**

Subfamily	Marketing - #403		
Subcategory	**Marketing - General (403_0)**		
Passenger Revenue	PRV	$57.4	99.7%
Direct (Unallocated)	NON	$0.2	0.3%

7.5 Stations Family

7.5.1 Stations-Route Subfamily

Family: **Stations - #500**
Subfamily: **Stations-Route - #501**

Scope

The Stations-Route Subfamily performs station service activities at station ResCens dedicated to a single route. These activities include ticketing, baggage and express services, stationmaster and usher activities, station cleaning and maintenance, snow and ice removal, making passenger inconvenience payments, and training and supervision of staff.

Subfamily expenditures for FY07 were $34.0 million and account for 0.8 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the single Amtrak route or commuter agency served by that station. Some expenditures are directly assigned to Reimbursable or Commuter customers. Most station operations costs are driven by the number of passengers served at that station and, as a result, are allocated by TBD, a direct statistic maintained in Amtrak's Revenue Data Warehouse, which reports passenger counts at specific stations. Other statistics are used to allocate the costs of specific Functions to trains served by that station. For example, costs related to baggage and express are allocated to trains by baggage units used (BUU), special train costs are allocated by TRD, and passenger inconvenience costs are allocated by TPM.

Where Amtrak operates stations for commuter railroad agencies, the expenditures are coded to agency-specific ResCens, or Reimbursable or Recollectable Functions dedicated to an individual commuter agency. In both cases, these expenditures are allocated by NON . The NON statistic does not apportion costs among multiple customers, but assigns all expenditures to a single customer identified for that Function or ResCen.

At stations with commercial activity, two percent of expenditures coded to Functions 1241, 1271, 1281, and 1285 is allocated to Amtrak's Commercial business to account for station costs related to operating this business. Although no passenger statistics exist for Amtrak's commercial business, the two-percent figure was selected because commercial activity at a station does increase the costs of operating a station and, therefore, a method was necessary to

account for these costs. Amtrak will conduct a study to relate commercial activity to station costs and adjust the method accordingly.

As in other subfamilies, TPM is used to allocate passenger inconvenience costs, but directly coding these costs to the appropriate Amtrak train is a future goal.

Summary

Table 7-28 is an overview of the cost allocation for the Stations-Route Subfamily.

Table 7-28: Stations-Route Subfamily Overview

Subfamily	**Stations-Route - #501**		
Subcategory	**Stations-Route - General (501_0)**		
FY 2007 Expenditures (Mil.)	$34.0		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Commercial		
Number of ResCens	129		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditure**	**Percent of Family**
Station Services - Ticketing	1231	$24.9	73.2%
Station Services - Station Operations	1271	$3.2	9.5%
Station Services – Bldg. Maintenance	1281	$2.3	6.8%
Station Services - Baggage/Express	1261	$1.1	3.4%
SAP Payroll Adjustments	1234	$1.1	3.1%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditure**	**Percent of Family**
Total Boards and Deboards	TBD	$32.5	95.5%
Baggage Units Used	BGU	$1.1	3.4%
Total Passenger Miles	TPM	$0.1	0.3%

7.5.2 Stations-Shared Subfamily

Family: **Stations - #500**
Subfamily: **Stations-Shared - #502**

Scope

The Stations-Shared Subfamily performs station service activities at stations ResCens serving multiple routes. These activities include ticketing, operating first class lounges, Red Cap and porter services, baggage and express services stationmaster and usher activities, station cleaning

and maintenance, snow and ice removal, making passenger inconvenience payments, and training and supervision of staff.

Subfamily expenditures for FY07 were $155.7 million and account for 3.7 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the ResCen level to the Amtrak trains or commuter agencies served by that station. Some expenditures are directly assigned to Reimbursable and Commercial customers. Most station operations costs are driven by the number of passengers served at that station and, as a result, are allocated by TBD, a direct statistic maintained in Amtrak's Revenue Data Warehouse that reports the passenger counts at specific stations. However, at those shared stations also used by outside commuter agencies, most station operations costs are allocated using Passenger Unit Trips (PUT) because the TBD statistic is unavailable for commuter activity. In such cases, PUT for Amtrak trains will be calculated automatically within APT using a city pair Stat Qualifier, while PUT for commuters will be calculated by Amtrak Contract Audit and Financial Controls group.

While most Stations-Shared costs are allocated using TBD and PUT, other statistics are used to allocate the costs of some specific Functions. Red Cap and porter costs, which are driven by activity on long-distance routes and not corridor (commuter type) services, are allocated by Trip-length Weighted Total Boards and Deboards (WBD). This statistic is calculated by dividing Passenger Miles for riders boarding or debarring from a particular station by TRD boarding or debarring at that station, creating a trip-length weight which is applied to TBD at that station. Costs to operate first class lounges are allocated to trains based on First Class Riders (FCR). Costs related to baggage and express are allocated to trains by BUU. Special train expenditures are allocated by TRD. Passenger inconvenience costs are allocated by TPM.

Where general Reimbursable or Commercial Functions are used in this Subfamily, expenditures coded to these Functions are assigned to the appropriate customer by NON. The NON statistic does not apportion costs among multiple customers, but assigns all expenditures to a single customer identified for that Function or ResCen. Where capital Functions are used by ResCens in the Stations-Shared Subfamily, they are not allocated. Unallocated capital expenses are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge. The capital charge is then allocated to the trains and other customers using that asset.

At stations with commercial activity, two percent of the cost of Functions 1241, 1271, 1281, and 1285 is allocated to Amtrak's Commercial business to account for station costs related to operating this business. The 2-percent figure was selected because, although no passenger statistics exist for Amtrak's Commercial business, commercial activity at a station does increase the costs of operating a station, therefore a method was necessary to account for these costs. Amtrak will conduct a study to relate commercial activity to station costs and adjust the method accordingly.

As in other Subfamilies, TPM is used to allocate passenger inconvenience costs, but directly coding these costs to the appropriate Amtrak train is a future goal.

Summary

Table 7-29 is an overview of the cost allocation for the Stations-Shared Subfamily.

Table 7-29: Stations-Shared Subfamily Overview

Subfamily	**Stations – Shared - #502**		
Subcategory	**Stations – Shared - General (502_0)**		
FY 2007 Expenditures (Mil.)	$155.6		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Commercial		
Number of ResCens	167		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditure**	**Percent of Family**
Station Services–Ticketing	1231	$62.2	39.9%
Station Services Station Operations	1271	$24.9	16.0%
Station Services–Baggage/Express	1261	$18.8	12.1%
Station Services—Management & Supervisors	1241	$9.4	6.0%
Station Services- Red Caps & Porters	1251	$8.3	5.4%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditure**	**Percent of Family**
Total Boards and Deboards or Passenger Unit Trips (with Commuter)	TBD PUT	$119.3	76.7%
Baggage Units Used	BUU	$18.9	12.1%
Weighted Boards and Deboards	WBD	$8.3	5.4%

7.6 General and Administrative [G&A] Family

7.6.1 Corporate Administration Subfamily

Family: **General & Administrative - #600**
Subfamily: **Corporate Administration - #601**

Scope

The Corporate Administration Subfamily performs managerial and administrative functions that are properly considered corporate-wide in scope. Expenses included in the Corporate Administration Subfamily are expenses such as the president's salary, expenses of the inspector general's office, and similar costs that support the overall mission of Amtrak rather than a subset of operations.

Subfamily expenditures for FY07 were $224.7 million and account for 5.4 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations at the national level to all Amtrak customers including Amtrak trains, commuter, freight, reimbursable, and commercial customers. For the large majority of expenses in this Subfamily, the allocation statistic is total activity cost (TAC), the total cost of each "cost object," including all direct costs, earlier round cost allocations, as well as the capital charge. TAC is available for customers of every business type and all customers receive a share of Corporate Administration costs based on their proportion of total Amtrak cost as reflected in the TAC statistic.

Capital Functions are used by these ResCens, but are not allocated. These Function expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these Functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset. Reimbursable Functions are used by these ResCens, but are not allocated to all customers. These Function expenses are assigned to the appropriate Reimbursable customer by NON. The NON statistic does not apportion costs among multiple customers, but rather assigns all costs to the single customer identified for that particular Function.

Certain expenses in ResCen 0802, Treasury Mandatory, require a finer level of detail for allocation. These transactions, identified by specified Accounts, are specific in nature and not appropriately allocated to all customers or may be allocated by a more appropriate statistic. Examples of these Account allocations include credit card commissions, allocated by PRV, or fuel hedging expenses, allocated by the DPUF. All other expenses at RC 0802 will be allocated similarly to all other Corporate Administration expenses.

Previously, Amtrak's G&A expenses were allocated only to Amtrak trains, excluding the other business line customers and TTE was used as an allocation statistic. TAC is a new statistic created to aggregate all costs for a customer, regardless of business type, to enable a single allocation to all customers, enterprise-wide. One component of TAC is the new synthetic capital charge, which as a replacement for depreciation and interest spreads out Amtrak's "lumpy" capital expenditures over an asset's life. As capital is an input to operations, it is included in the total cost of a customer and the new capital charge spreads the lumpy expenditure over time.

Summary

Table 7-30 is an overview of the cost allocation for the Corporate Administration Subfamily.

Table 7-30: Corporate Administration Subfamily Overview

Subfamily	**Corporate Administration - #601**		
Subcategory	**Corporate Administration - General (601_0)**		
FY 2007 Expenditures (Mil.)	$224.7		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	33		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Corporate Administration	1001	$187.2	83.3%
Sales	1201	$32.0	14.2%
Insurance & Taxes	1181	$29.8	13.3%
Corporate Service Centers	1121	$10.7	4.8%
Finance Charges	1191	$8.1	3.6%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Activity Cost	TAC	$223.9	99.6%
Direct (Unallocated)	NON	$0.8	0.4%

7.6.2 Centralized Services Subfamily

Family: **General & Administrative - #600**
Subfamily: **Centralized Services - #602**

Scope

The Centralized Services Subfamily performs services for other portions of the Amtrak enterprise and is properly considered corporate-wide in scope. These services include computer services, payroll operations, human resources, and employee services available corporate-wide. Centralized Services costs represent services provided to and benefiting all employees and businesses operating under the Amtrak corporate umbrella.

Subfamily expenditures for FY07 were $234.6 million and account for 5.6 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations are at the national level to all Amtrak including Amtrak trains, Commuter Infrastructure Access, Commuter Operations, Freight, Reimbursable, and Commercial customers. The allocation statistic is TAC, the total cost of each "cost object," including all direct costs, prior-round cost allocations, as well as the capital charge. TAC is available for

customers of every business type and all customers receive a share of Centralized Services costs based on their proportion of total Amtrak cost as reflected in the TAC statistic.

Capital Functions are used by these ResCens, but are not allocated. These Function expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these Functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset. Commuter Functions are used by these ResCens, but are not allocated to all customers. These Function expenses are assigned to the appropriate Commuter customer by NON. The NON statistic does not apportion costs among multiple customers, but rather assigns all costs to the single customer identified for that particular Function.

Previously, Amtrak's G&A costs were allocated only to Amtrak trains, such as excluding the other business line customers, and TTE was used as an allocation statistic. TAC is a new statistic created to aggregate all costs for a customer, regardless of business type, to enable a single allocation to all customers, enterprise-wide. One component of TAC is the new synthetic capital charge which, as a replacement for depreciation and interest, spreads out Amtrak's "lumpy" capital expenditures over an asset's life. As capital is an input to operations, it is included in the total cost of a customer and the new capital charge spreads the lumpy expenditures over time.

For reporting and management reasons, the Centralized Services Subfamily includes several subcategories to identify specific costs such as payroll, procurement, and IT. These subcategories are all allocated in the same manner, i.e., using TAC.

Summary

Table 7-31 is an overview of the cost allocation for the Centralized Services Subfamily.

Table 7-31: Centralized Services Subfamily Overview

Subfamily	**Centralized Services - #602**		
Subcategory	**Centralized Services - General (602_0), Finance (Payroll) (602_2), Finance (Receivables) (602_3), Computer Systems (602_6), Procurement and Purchasing (602_7)**		
FY 2007 Expenditures (Mil.)	$234.6		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	66		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Corporate Service Centers	1121	$184.2	78.5%
Road Land & Other WP	3501	$35.2	15.0%
Corporate Administration	1001	$11.3	4.8%

Subfamily	Centralized Services - #602		
Subcategory	Centralized Services - General (602_0), Finance (Payroll) (602_2), Finance (Receivables) (602_3), Computer Systems (602_6), Procurement and Purchasing (602_7)		
Project Support-Technology	5010	$1.13	0.5%
Divisional Service Centers	1122	$0.6	0.2%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	Code	Expenditures	Percent of Family
Total Activity Cost	TAC	$199.4	85.0%
Direct (Unallocated)	NON	$35.2	15.0%

7.6.3 Qualified Managerial & Services Subfamily

Family: **General & Administrative - #600**
Subfamily: **Qualified Managerial & Services - #603**

Scope

The Qualified Managerial & Services Subfamily performs high-level managerial and supporting activities related to a subset of the total Amtrak enterprise. Although the ResCens in this Subfamily perform missions similar to the other G&A Subfamilies, because they do not support the entire operation, they are not considered corporate-wide and their allocation method needs to reflect this.

Subfamily expenditures for FY07 were $107.4 million and account for 2.6 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations will be at the ResCen level to the appropriate customers from all business types: NTS, CIA, COP, Freight, Reimbursable, and Commercial. The appropriate activity group containing some combination, but not all, of the customers will be determined individually for each ResCen. For the large majority of expenses in this Subfamily, the primary allocation statistic will be customer activity expense (CAE), which is the sum of all direct and allocated costs before this round including the capital charge. CAE is similar to the TAC but the TAC includes CAE as well as costs allocated in this round by CAE. ResCens in this Subfamily will be included in the base for calculating TAC, which is ultimately used to allocate the corporate-wide G&A expenses contained in Corporate Administration (601) and Centralized Services (602) Subfamilies.

Capital Functions are used by these ResCens, but are not allocated. These Function expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses

using these Functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset. Where ResCens use Functions that are directly assigned to a customer, the Subfamily will use NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single business identified for that particular Function.

Certain expenses in this Subfamily require a finer level of detail for allocation. These transactions, identified by Account, are specific in nature and not appropriately allocated to all customers or may be allocated by a more appropriate statistic. Examples of these Account allocations include passenger insurance claims, allocated by TPM, or diesel fuel taxes, allocated by the DPUF.

Included in the Subfamily is the special case ResCen 0202, Corporate Common. Some of the expenditures within this ResCen are corporate-wide whereas others are specific to a customer type. As a result, ResCen 0202 requires an allocation method that uses a finer level of data than the rest of the Subfamily. Although the ResCen will remain in the #603 Subfamily, it will be allocated by various statistics determined using an individual profile specifying individual activity groups for specific Function and account level allocations. The expenditures in ResCen 0202 will also be allocated before and be included in the formation of each customer's TAC.

Summary

Table 7-32 is an overview of the cost allocation for the Train Movement Subfamily.

Table 7-32: Train Movement Subfamily Overview

Subfamily	**Qualified Managerial & Services - #603**		
Subcategory	**Qualified Managerial & Services - General (603_0)**		
FY 2007 Expenditures (Mil.)	$107.4		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	48		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Corporate Administrative	1001	$91.6	85.3%
Transfers Reimbursable	6889	$18.3	17.1%
Corporate Service Centers	1121	$17.3	16.1%
MoE Inventory Adjustment	1992	$12.9	12.0%
Division Administrative	1002	$7.1	6.2%
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Customer Activity Expense	CAE	$111.4	104.0%
Direct (Unallocated)	NON	$0.9	0.8%

Subfamily	Qualified Managerial & Services - #603		
Subcategory	Qualified Managerial & Services - General (603_0)		
Units Used	UU	-$4.9	-4.5%

7.6.4 Direct Customer (Non-NTS) Subfamily

Family: General & Administrative - #600
Subfamily: Direct Customer (Non-NTS) - #604

Scope

The Direct Customer (Non-NTS) Subfamily performs functions that support only Commercial or Commuter customers such as managing commuter operating contracts, real estate assets, and other support to customers outside of Amtrak's train operations. These ResCens are exclusively outside the NTS and have specific non-NTS customers.

Subfamily expenditures for FY07 were $9.4 million and account for 0.2 percent of Amtrak's total expenses.

Cost Allocation Method

Costs are directly assigned to a specific customer as determined individually for each ResCen. The Subfamily will exclusively use NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single business identified for that particular cost.

The Direct Customer (Non-NTS) Subfamily is a first round allocation and its costs comprise part of a customer's CAE and TAC, statistics that are used in subsequent G&A allocations.

Summary

Table 7-33 is an overview of the cost allocation for the Direct Customer (Non-NTS) Subfamily.

Table 7-33: Direct Customer (Non-NTS) Subfamily Overview

Subfamily	Direct Customer (Non-NTS) - #604		
Subcategory	Direct Customer (Non-NTS) - General (604_0)		
FY 2007 Expenditures (Mil.)	$9.4		
Business Types To Which Costs Are Allocated	CIA, COP, Commercial		
Number of ResCens	11		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	Code Number	Expenditures	Percent of Family
Revenue Diversification	1009	$3.3	34.9%
Corporate Service Centers	1121	$0.6	5.8%
Division Administrative	1002	$0.4	3.9%

Subfamily	Direct Customer (Non-NTS) - #604		
Subcategory	Direct Customer (Non-NTS) - General (604_0)		
Corporate Administration	1001	$0.3	3.3%
Project Support-Other	5015	$0.2	2.5%
Top Allocation Statistic by Expenditures (Dollars, Mil., FY07)			
Statistic	Code	Expenditures	Percent of Family
Direct (Unallocated)	NON	$9.4	100%

7.6.5 *Subsidiary Subfamily*

Family: **General & Administrative - #600**
Subfamily: **Subsidiary - #605**

Scope

The Subsidiary Subfamily represents ResCens[39] associated with Amtrak's five Subsidiary Companies, which include Chicago Union Station Company (CUS), Passenger Railroad Insurance Limited (PRIL, Penn Station Leasing, LLC (PSL), Washington Terminal Company (WTC), and 30th Street Limited, L.P. (TSL). The subsidiaries and their activities are diverse: CUS owns and operates Chicago Union Station and various nearby real estate parcels; PRIL is an offshore captive insurance company that allows Amtrak to acquire insurance coverage that cannot be readily obtained domestically; PSL is a subsidiary established for the purpose of acquiring New York Penn Station from Amtrak and leasing it back to the parent company; WTC owns various parcels in the vicinity of Washington Union Station, although not the station itself; TSL was established for the purpose of rehabilitating and leasing 30th Street Station in Philadelphia, although the station itself is owned by Amtrak.

Subfamily expenditures for FY07 were $17.3 million and account for 0.4 percent of Amtrak's total expenses.

Cost Allocation Method

Amtrak's FIS includes (1) transactions taking place at the five Amtrak ResCens associated with these subsidiaries, (2) the transactions of the subsidiary companies themselves, both vis-à-vis the parent company and external entities, and (3) various elimination transactions necessary to produce consolidated financial statements. The Fully Allocated costs of Amtrak's subsidiaries need to be calculated in a manner consistent with costs in other ResCen families. Given that Amtrak has a controlling interest in all of the subsidiaries, so therefore, Amtrak and the subsidiaries must be treated as a single entity and only expenditures incurred vis-à-vis external entities should be considered costs for the purpose of calculating Fully Allocated costs. To achieve this result, both subsidiary expenditures incurred vis-à-vis external entities and all transactions (both expenditures and revenues) between Amtrak and its subsidiaries will be

[39] The subfamily includes five Amtrak ResCens and ten "pseudo-ResCens," five of which correspond to the subsidiaries themselves and five to virtual ResCens used to process elimination entries between the parent company and the subsidiaries

allocated (certain expenditures, such as depreciation and interest, will not be allocated, as to be explained in Section 7.1.1). This will have largely the same effect as only allocating costs vis-à-vis external entities because transactions between Amtrak and its subsidiaries will typically net to zero due to elimination entries.

One difficulty in allocating subsidiary expenditures is that many are coded to FN1004, Subsidiary Operating Activity, which is used to record intercompany operating activities, but gives no indication of the type of activity and how its costs should be allocated. To overcome this problem, many of the expenditures in this Subfamily are allocated at the detailed Account level.

Most Subsidiaries are associated with specific locations, so expenditures are allocated locally to the routes and customers operating at those locations. The exception is PRIL whose expenditures are allocated nationally. The diverse nature of Amtrak's subsidiaries means that the manner in which Subsidiary Subfamily expenditures are allocated depends on the particular subsidiary.

Capital Functions are used by these ResCens but are not allocated. These Function expenses include any capital improvements to extend the life of the assets. Unallocated capital expenses using these Functions are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset. Where expenditures are unallocated the Subfamily uses NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single business identified for that particular Function.

Because CUS owns and operates Chicago Union Station, costs associated with this subsidiary are allocated in a manner similar to costs in the Stations Family. Most station and terminal costs are allocated to both Amtrak trains and the Metra Commuter. Two percent of Station operations-related costs also are allocated to the Commercial business. The other 98 percent of station operations costs are allocated based on TBD. Costs coded to FN1004, Suboperating Activity, are, in general, allocated in the same manner as Station operations expenses. MoW costs are allocated to Amtrak trains or other customers that use the specific areas of track maintained by the subsidiary, including Freights, using FTT or TUM, depending on the Function. Insurance costs are allocated based on TPM.

In the case of PRIL, the majority of subsidiary activity is related to insurance purchased on behalf of Amtrak and insurance claims. PRIL provides railroad protection coverage, which covers contractors working on Amtrak property, force account insurance, which covers liabilities related to Amtrak's Reimbursable business (i.e., where Amtrak employees perform work for third parties), as well as coverage for some other activities. Most passenger insurance is no longer processed through PRIL. A majority of the costs for this subsidiary are associated with Amtrak's accrual for self insurance for passenger claims, insurance policies with outside companies and professional fees. Based on a review of liability claims, the majority of passenger claims insurance expenditures are allocated based on TPM with the remainder going directly to Reimbursable, while purchased insurance expenditures will be allocated based on TPM. Professional services expenditures are allocated based on TPM. Expenditures and

revenues related to PRIL force account insurance and Equity in Subsidiary-PRIL are allocated in the same manner as passenger claims insurance expenses.

In the case of TSL, the majority of expenses represent station rent, interest and depreciation, and professional fees. Station rent and intercompany rent revenue are allocated to Amtrak trains using 30th Street Station based on TBD, except that 2 percent of those sums are allocated to the Commercial business. Depreciation and interest, which make up the bulk of remaining subsidiary expenses, and other subsidiary expenses, such as professional fees, go directly to unallocated.

In the case of PSL, the entirety of the subsidiary's monthly expenses represents interest charges. Therefore, the expenditures go directly to unallocated. Likewise, in the case of WTC, the entirety of the subsidiary's monthly expenses represents depreciation expenditures and goes directly to unallocated. No other types of Functions or Accounts are associated with these subsidiaries.

Summary

Table 7-34 is an overview of the cost allocation for the Subsidiary Subfamily.

Table 7-34: Subsidiary Subfamily Overview

Subfamily	**Subsidiary - #605**		
Subcategory	**Subsidiary - General (605_0)**		
FY 2007 Expenditures (Mil.)	$17.4		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Reimbursable, Commercial		
Number of ResCens	15		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Station Services-Station Operations	1271	$10.0	57.6%
Sub Operating Activity	1004	-$8.6	-49.6%
Depreciation All Other Assets	1171	$7.1	42.2%
Insurance & Taxes	1181	$4.1	23.5%
Power Transmission Sys Oper	1719	$2.4	14.0%
Top 4 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Board and Deboards	TBD	$10.3	60.2%
Direct (Unallocated)	NON	$5.7	33.2%
Frequency	FTT	$3.0	17.4%
Total Passenger Miles	TPM	-$2.0	-11.7%

7.7 Capital Family

7.7.1 Capital Subfamily

Family: **Capital - #700**
Subfamily: **Capital - #701**

Scope

The Capital Family covers the capital charges for operating Amtrak's NTS and other businesses. Under GAAP depreciation and interest expenses developed as part of the corporation's income and capital reporting systems and its audited financial statements reflect the capital costs of an enterprise. However, because of the financial history of Amtrak and its unique status as a government-assisted enterprise, it was decided that a synthetic capital charge provides a more representative measure of the resource cost of all capital equipment and property—regardless of how financed—currently being used by Amtrak to produce its various services and outputs. Thus, the synthetic capital charge described below is used instead of depreciation and interest in the methodology for estimating and reporting avoidable and Fully Allocated costs. However, the synthetic capital charge is only used as part of this methodology for estimating Avoidable and Fully Allocated Costs, and, importantly, does not replace the depreciation and interest expenses included in Amtrak's published and audited financial reports which are intended to measure—according to GAAP procedures—the corporation's overall profitability during particular time periods. A more detailed explanation for the rationale and approach of the synthetic capital charge is provided in Appendix E.

The synthetic capital charge represents both a return of capital (analogous to depreciation) and a return on capital (replacing interest expenses). It annualizes over assets' service lives the original dollar expenditures for their acquisition. The values of these expenditures to be annualized are based on the same original gross asset values that are recorded in Amtrak's accounting systems used in estimating depreciation for financial accounting purposes. The capital charge also uses asset service lives based on those employed by Amtrak in calculating depreciation expense, including that calculated under its group system. It does not, however, make use of rates of interest on debts incurred by Amtrak or by other commercial borrowers. Instead, it employs for asset acquisition cost annualization purposes a cost of capital factor based on the Federal Government's borrowing costs for the year in which Avoidable and Fully Allocated Costs are being estimated.

The capital charge is calculated by applying to the (undepreciated) gross value of each physical asset currently carried on Amtrak's books of account and in use or held for use in its service an annual capital recovery factor (CRF) or amortization factor based on an assumed useful lifetime for the asset and an appropriate rate of return, to the total of the initial acquisition costs for each asset. Where i denotes the rate of return and T denotes the asset's lifetime, the CRF is computed using the following equation:

$$CRF - i * (1+i)^{I} / [(1+i)^{I}-1]$$

Where the initial capital cost of an asset is K, the capital charge (CC) formula for the asset is:

$$CC = K * CRF$$

The rate of return, i, used to calculate CRF is the U.S. Treasury borrowing rate on 20-year maturity notes prevailing at the time the capital charge is calculated. This corresponds to the view that the cost of the entire capital investment in Amtrak should reflect the Federal government's long-term cost of borrowing to finance that investment. At the time of this writing, May 8, 2009, the rate is 4.25 percent. The current rate is published daily by the U.S. Treasury and can be found on its Web site:

http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield.shtml

In monthly reporting of Fully Allocated and Avoidable Costs, the rate on the last day available of the reporting month is used. This monthly updating procedure serves to avoid larger discontinuities that could occur if updates are done less often, e.g., annually, since the rate can sometimes vary considerably over a calendar year. The annual capital charge is the sum of the monthly capital charges.

The capital charge uses a new, single virtual responsibility center created for dealing with these expenses. The individual cost records have Function, Account, and Location codes that are used for allocation to trains and other business types and for reporting various subcategories of the capital charge, such as ROW versus equipment. Existing Amtrak accounting codes are used where possible, but some new ones are required to provide the desired disaggregation and to distinguish the capital charge from other similar concepts.

The Function and Account codes used for the capital charge are listed in Table 7-35 and Table 7-36. Table 7-36 also provides the allocation statistic used for each of the Accounts.

Table 7-35: Functions Used in Allocating Capital Charges

Function Number*	Name	Description
	Fixed Assets–ROW	
	Fixed Assets–Non ROW	
	Passenger Rail Equipment	
	Highway Vehicles	
	Rail Work Equipment	

*To be determined: Function number not yet assigned.

Table 7-36: Accounts Used in Allocating Capital Charges

Account Number*	Name	Description	Allocation Statistic
	Rail Track		FTT
	Ballast		FTT
	Ties		FTT
	Land	Excludes improvements	FTT
	Signal & Communications	Systems	FTT

Account Number*	Name	Description	Allocation Statistic
	Electric Traction & Power	Systems	EUM
	Bridges & Tunnels		FTT
	Other ROW	Includes grading	FTT
	Stations		TBD&PUT
	Office Buildings		TAC
	MOE Facilities & Equipment		MDC
	MOW Facilities & Equipment		MWDC
	Locomotives		xUU
	Rail Passenger Cars		xUU
	Baggage/Package Cars		BUU
	Rail Work Equipment	For MoW	MWDC
	Computer-IT		TAC
	Other Office Equipment		TAC
	Vehicles		Any**

*To be determined: Account number not yet assigned.
**ResCen-based

The capital charge for each asset is matched to and assigned or allocated to the business elements that it supports. The basic allocation process is the same as that used for expenses in other Subfamilies. Statistics measure the amount of activity accounted for by each business element supported by an asset, and the relative shares based on these statistics are used in allocating the asset's capital charge expense. Stat Qualifiers are used to limit the allocation to subsets of business elements based on location. The statistics used for allocation vary based on the type of asset as shown in Table 7-36. "Appendix A: Family Profiles" provides specifics on which Stat Qualifiers are used to allocate the capital charges for the various asset types.

The process for linking assets to the business elements they support differs for fixed assets and rail equipment. For most fixed assets the linkage to the business elements they support is made using location description information from the asset's record in the general ledger. The general ledger assets are linked to a specific Stat Qualifier used elsewhere in allocating expenses and hence provide a linkage to the business element having allocation statistics at that location. There are Stat Qualifiers for ROW (track) segments, stations, and maintenance facilities. The exception to the Stat Qualifier-location linkage process occurs for fixed assets that are treated like other G&A expenses, such as general office buildings and computer systems. The capital charges for these G&A-type fixed assets are allocated across the entire enterprise using the TAC statistic and thus do not require a location linkage.

The capital charges for fixed assets are allocated to NTS trains and other business types supported by the asset. For example, the capital charges associated with portions of the NEC ROW are allocated to commuters and freights that also use the infrastructure.

For rail equipment assets, the linkage to the business elements they support is made using equipment codes as Stat Qualifiers for the UU statistic. No location information is needed or relevant because the equipment capital charges are allocated directly to trains using a given type

of equipment. For leased equipment, the capital charges based on initial equipment acquisition values is used instead of lease payments and their related income statement adjustments.

Summary

Table 7-37 is an overview of the cost allocation for the Capital-General Subfamily.

Table 7-37: Capital-General Subfamily Overview

Subfamily	**Capital - #701**
Subcategory	**Capital - General (701_0)**
FY 2007 Expenditures (Mil.)	N/A (FIS entries pertaining to this Subfamily will be entirely replaced by the synthetic capital charge – see text.)
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial

7.8 Utilities Family

7.8.1 Utilities Subfamily

Family: **Utilities - #800**
Subfamily: **Utilities - #801**

Scope

The Utilities Subfamily is used to account for utilities expenses including gas, electric, and water provided at various terminals, stations, and support facilities. Most of Amtrak's utilities expenses are recorded at ResCens already in another Subfamily and are allocated by that Subfamily method. ResCens in the Utilities Subfamily however, support multiple departments and utility costs cannot be attributed to a single ResCen or activity. The Washington Utilities ResCen for example, incurs utilities costs for mechanical, transportation, and mechanical operations.

Subfamily expenditures for FY07 were $17.0 million and account for 0.4 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations will be at the ResCen and Function level to the appropriate Amtrak train, commuter, or reimbursable business or customer. No primary allocation statistic exists for the Subfamily; the allocation statistic used is dependent on the Function for each cost record. Statistics used in the Subfamily include, but are not limited to, PUT, TEH, TUM, DRV, and units used (UU). For identified Commercial and Reimbursable Functions, these unallocated costs will

use NON. The NON statistic does not apportion costs among multiple customers, but assigns all costs to the single business identified for that particular Function.

The allocation statistic used is dependent on the Function associated with each expense. Utility expenses within a ResCen are recorded with Functions relating to the activity served by each meter. Utility expenses from a meter in a mechanical facility would be allocated by TUU while utility costs in a commissary would be allocated by DRV, etc. The Utilities profile lists the allocation statistics for the Functions associated with each general activity. Where the expense is at a station used by commuters, the Commuter business receives a portion of the station costs as allocated by PUT. TBD was not used because under existing agreements with commuter agencies Amtrak does not have access to the TBD statistic for commuter trains.

The Utilities Subfamily uses a station pair Stat Qualifier to allocate costs to the specific geographic area supported by each Utilities ResCen. The Stat Qualifier dynamically creates a pool of trains that travel over that area and allocates costs based on a particular train's share of activity.

Although Commercial customers are present at some of the locations served by the Utilities ResCens, Amtrak has no means to allocate costs to those businesses. However, some costs in this Subfamily are coded with commercial Functions and can be directly assigned to the appropriate business. Amtrak anticipates performing a future study that will determine and quantify commercial costs at stations allowing for a more accurate allocation of utility costs at stations.

Summary

Table 7-38 is an overview of the cost allocation for the Utilities Subfamily.

Table 7-38: Utilities Subfamily Overview

Subfamily	**Utilities - #801**		
Subcategory	**Utilities - General (801_0)**		
FY 2007 Expenditures (Mil.)	$17.0		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Commercial, Reimbursable		
Number of ResCens	9		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Station Services–Station Operations	1271	$12.1	71.1%
MoE Overhead	1814	$2.0	11.9%
MoW Overhead	1751	$1.4	8.4%
Signal & Interlocker Operation	1634	$0.8	4.6%
Commercial General Superintendent	4040	$0.2	1.1%

Subfamily	Utilities - #801		
Subcategory	**Utilities - General (801_0)**		
Top 3 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT	$12.2	71.8%
Units Used	UU	$2.0	11.9%
Total Unit Miles	TUM	$1.5	8.6%

7.9 Police, Security, & Environmental/Safety Family

7.9.1 Police Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Police - #901**

Scope

The Police Subfamily performs traditional patrolling duties in support of Amtrak trains, facilities, and ROW. The Police Subfamily consists of two Subcategories: National and Regional/Local. The Regional/Local Subcategory provides the front line policing duties while the National Subcategory coordinates and supports the operation across the Amtrak network.

Subfamily expenditures for FY07 were $35.5 million and account for 0.9 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations for the Police Subfamily are dependent on the subcategory. National Subcategory ResCen costs are allocated at the national level to all customers including Amtrak trains and other businesses and customers. The allocation statistic is CAE—the sum of all direct and allocated costs prior to this round including the capital charge. CAE is similar to the TAC but the TAC includes CAE as well as costs allocated in this round by CAE. ResCens in this Subfamily are therefore included in the base for calculating TAC.

Regional/Local Subcategory ResCen costs are mostly allocated at the ResCen level using TUT with an ACK Ratio as well as Station Pair Stat Qualifier. The key driver of Police costs are passenger levels in and around stations, but as passenger related statistics are unavailable for all customers they cannot be used in the allocation. For that reason, PUT is used to allocate as it is both reflective of passenger levels and available for freight and commuter customers. The Police Subfamily uses a Station Pair Stat Qualifier to allocate costs to the specific geographic area supported and patrolled by each Regional/Local ResCen. The Stat Qualifier dynamically creates a pool of trains that travel over that area and allocates costs based on a particular train's share of PUT. PUT is automatically available for Amtrak trains from the TUS system using data from

OMS. The Audit and Financial Controls group will provide PUT for commuters and the Financial Analysis/APT group will manually calculate PUT statistics for freights.

Commercial business customers operate in areas patrolled by the Police Subfamily and deserve a portion of costs; however, commercial customers do not have operational statistics and cannot be allocated costs by PUT as in the rest of the Subcategory. Through consultation with Amtrak field personal and in agreement between Volpe Center and Amtrak Finance staff, 2 percent of Regional/Local subcategory costs are assigned to the commercial business using an ACK Ratio. The remaining 98 percent is allocated using the PUT allocation methodology described above.

Where Capital Functions are used by these ResCens, they are not allocated. Unallocated capital expenses are entered into Amtrak's asset ledgers and become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset. Police expenses that are direct to a Reimbursable are identified by specific Functions identified in the profile and allocated by NON. The NON statistic does not apportion costs among multiple customers, but rather assigns all costs to the single customer identified for that particular Function.

Summary

Table 7-39 is an overview of the cost allocation for the Police Subfamily.

Table 7-39: Police Subfamily Overview

Subfamily	**Police - #901**		
Subcategories	**National (901_1), Regional/Local (901_2)**		
FY 2007 Expenditures (Mil.)	$35.5		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	24		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Police Security & Environmental Safety	1124	$31.6	89.0%
Project Support–Other	5015	$1.0	2.8%
Training Amtrak	1131	$0.8	2.3%
Road Land & Other WIP	3501	$0.7	1.9%
Reimbursable General Support	1197	$0.4	1.1%
Top 3 Allocation Statistic by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Total Unit Trips	TUT	$28.3	79.7%
Customer Activity Expense	CAE	$5.5	15.5%
Direct (Unallocated)	NON	$1.7	4.8%

7.9.2 Security Strategy, & Special Operations Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Security Strategy & Special Operations - #902**

Scope

The Security Strategy & Special Operations (SSSO) Subfamily works together with the Police Subfamily to provide traditional patrolling, intelligence, and counterterrorism efforts in support of Amtrak trains, facilities, and ROW. Additionally, the SSSO Subfamily manages all capital and grant projects related to security operations such as the installation of new security cameras on tunnels, bridges, and other ROW as well as all projects funded by the U.S. Department of Homeland Security.

Subfamily expenditures for FY07 were $8.0 million and account for 0.2 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations for the SSSO Subfamily are at the national level to all customers including Amtrak trains and other businesses and customers. The exclusive allocation statistic is CAE, the sum of all direct and allocated costs before this round including the capital charge. CAE is similar to the TAC but the TAC includes CAE as well as costs allocated in this round by CAE. ResCens in this Subfamily are included in the base for calculating TAC.

Where Capital Functions are used by these ResCens, they are not allocated. Unallocated capital expenses are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge, which is then allocated to the trains and other businesses and customers using that asset.

Summary

Table 7-40 is an overview of the cost allocation for the SSSO Subfamily.

Table 7-40: SSSO Subfamily Overview

Subfamily	**Security Strategy & Special Operations - #902**		
Subcategory	**National (902_0)**		
FY 2007 Expenditures (Mil.)	$8.0		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	8		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Police Security & Environmental Safety	1124	$5.3	66.3%

Subfamily	Security Strategy & Special Operations - #902		
Subcategory	**National (902_0)**		
Project Support -Other	5015	$1.3	16.3%
Road Land & Other WIP	3501	$1.1	13.8%
Project Support–Technology	5010	$0.1	1.3%
Training Amtrak	1131	$0.1	1.3%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Customer Activity Expense	CAE	$7.0	86.7%
Direct (Unallocated)	NON	$1.1	13.3%

7.9.3 Environmental & Safety Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Environmental & Safety - #903**

Scope

The Environmental & Safety Subfamily performs activities to ensure and oversee environmental, health, and safety issues of Amtrak and its employees. These activities include reporting and safety compliance requirements by State and Federal agencies as well as compliance with environmental regulations.

Subfamily expenditures for FY07 were $9.8 million and account for 0.2 percent of Amtrak's total expenses.

Cost Allocation Method

Cost allocations for the Environmental & Safety Subfamily are at the national level to all customers including Amtrak trains and other businesses and customers. The exclusive allocation statistic is CAE, the sum of all direct and allocated costs prior to this round including the capital charge. CAE is similar to the TAC but the TAC includes CAE as well as costs allocated in this round by CAE. ResCens in this Subfamily are therefore included in the base for calculating TAC.

Where Environmental & Safety ResCens use Capital Functions, they are not allocated. Unallocated capital expenses are entered into Amtrak's asset ledgers and thereby become part of the asset base used in calculating a capital charge which is then allocated to the trains and other businesses and customers using that asset. Environmental & Safety expenses that are direct to a Reimbursable are identified by specific Functions identified in the profile and allocated by NON. The NON statistic does not apportion costs among multiple customers, but rather assigns all costs to the single customer identified for that particular Function.

Summary

Table 7-41 is an overview of the cost allocation for the Environmental & Safety Subfamily.

Table 7-41: Environmental & Safety Subfamily Overview

Subfamily	**Environmental & Safety - #903**		
Subcategory	**Environmental & Safety - General (903_0)**		
FY 2007 Expenditures (Mil.)	$9.8		
Business Types To Which Costs Are Allocated	NTS, CIA, COP, Freight, Reimbursable, Commercial		
Number of ResCens	5		
Top 5 Functions by Expenditures (Dollars, Mil., FY07)			
Function	**Code Number**	**Expenditures**	**Percent of Family**
Police Security & Environmental Safety	1124	$6.3	64.3%
Road Land & Other WIP	3501	$2.2	22.4%
General Supt Special Project	1198	$1.3	13.3%
MoW Overhead	1751	$0.01	0.1%
MoW Reimbursable	1797	$0.01	0.1%
Top 2 Allocation Statistics by Expenditures (Dollars, Mil., FY07)			
Statistic	**Code**	**Expenditures**	**Percent of Family**
Customer Activity Expense	CAE	$7.6	77.8%
Direct (Unallocated)	NON	2.2	22.2%

8 Methodologies for Estimating Avoidable Cost by APT Subfamily

This section describes the essential elements of the methodology for estimating Avoidable Costs for each of the 36 individual Subfamilies. The specific extension and application to the individual Subfamilies of the general Avoidable Cost methodology described in Section 6 are described here. Four different approaches are used to estimate Avoidable Costs. Subfamilies are classified into four groups depending on the approach followed:

- Fixed
- Avoidable
- Mixed-Statistical
- Mixed-Detailed

The four Avoidable Cost approaches differ both in terms of the logic underlying the calculations as well as the calculations themselves. On the basis of standard practice and professional judgment, some of the Subfamilies are classified as having costs that are either completely (100 percent) Fixed or completely (100 percent) Avoidable if a single Route were to be eliminated. The remaining Subfamilies are classified as Mixed, meaning that some costs are Fixed and others Avoidable. Many of the Mixed Subfamilies were subjected to statistical analysis in an attempt to identify their Fixed and Avoidable portions and to develop formulas for calculating those portions. Subfamilies whose Fixed and Avoidable portions could be estimated statistically are classified as Mixed-Statistical. For various reasons the statistical approach could not be used or was unsuccessful for some Mixed Subfamilies. In such cases, a detailed analysis of Subfamily costs was performed to identify and classify costs as either Fixed or Avoidable. Subfamilies for which such an approach was followed are classified as Mixed-Detailed.

Subfamilies Classified as Fixed

Subfamilies classified as Fixed contain costs that would not vary if a single route were to be eliminated. Costs in these Subfamilies would continue to be incurred as long as Amtrak continues to operate the majority of its train services. Examples of fixed costs include corporate management and administrative costs, including salaries for senior executives, costs stipulated by contract, costs associated with operating CNOC, and some MoW costs for shared infrastructure. Importantly, costs at Subfamilies classified as Fixed are fixed only with respect to the elimination of a single route; if multiple routes were eliminated, Amtrak's overall corporate structure could conceivably shrink, which might lower the long-run fixed costs of running the company. However, for Subfamilies classified as Fixed in this methodology, the Avoidable Costs associated with eliminating a particular route would not be significant or measurable.

Subfamilies Classified as Avoidable

Subfamilies that are classified as Avoidable contain costs that decrease proportionally with route activity. Costs in these Subfamilies would completely cease to be incurred if a route were to be

eliminated. Examples of costs that are completely avoidable include costs for diesel fuel and electric traction used to power locomotives as well as those for some types of labor and supplies. If an Amtrak route using diesel fuel were eliminated, for example, then Amtrak would no longer incur any fuel costs to operate that route. Diesel fuel costs incurred in the Fuel Subfamily have no fixed component and are classified as 100 percent avoidable in both the short run and the long run.

Subfamilies Classified as Mixed-Statistical

The Subfamilies classified as having Mixed costs require a more complex method for estimating avoidable costs. In the case of ten of the Mixed Subfamilies, cost equations were developed using statistical analysis. The Mixed-Statistical approach is described in Section 6.5. In most cases separate cost equations were developed for estimating short-run and long-run Avoidable Costs. The short-run equations are used to estimate only costs that can be avoided in the short run. The long-run equations estimate total long-run Avoidable Costs, including both costs that can and cannot be avoided in the short-run.[40] As explained in Section 6.5, in cases for which the long-run and short-run models result in very similar equation coefficients, the random-effects model is used to estimate a single equation and to estimate Avoidable Costs in both the short run and the long run.

The statistical analysis process and results for individual Subfamilies are presented below. Short-run, long-run, and combined coefficients, significance levels, the number of observations, and R-squared values are reported. Coefficients are statistical estimates of the true parameter values for the long-run and short-run cases, or, as mentioned above, for "combined effect" cases in which no statistically significant distinction between the short- and long-run effects could be found. Significance levels show the probability that the true parameter values are greater than zero. The number of observations is typically equal to the number of ResCens multiplied by three and the number of years of data used in the analysis. However, this is not always the case, because all three years of data were not available for some individual ResCens in the datasets.

The cost equations are used to predict the percentage of costs at each ResCen that can be avoided with the elimination of a route. The percentage change in cost is applied to the ResCen Fully Allocated cost estimates to calculate the Avoidable Cost for that ResCen. To calculate route level Avoidable Costs, the detailed ResCen-train level estimates of Avoidable Costs are summed for all Subfamilies.

Subfamilies Classified as Mixed-Detailed

For some Subfamilies with Mixed costs, the statistical approach could not be used to estimate avoidable costs because ResCen-level data for relevant explanatory variables was not available. For others, the Subfamilies were investigated statistically but a significant (usable) relationship between train activity and ResCen cost was not found. Assuming these costs were 100 percent Fixed or 100 percent Avoidable is unreasonable, so a detailed analysis at the sub-ResCen level was performed. Subfamilies analyzed using such an approach are classified as Mixed-Detailed.

[40] Long-run Avoidable Cost include short-run costs, therefore estimates of short-run Avoidable Costs should not be added to long-run estimates.

For some Subfamilies in this category even though a large share of costs were indeed Fixed, costs associated with specific Functions or Accounts would decrease if a particular route were eliminated and thus are Avoidable. In calculating Avoidable Costs, these costs are identified as Avoidable while the remaining costs are classified as Fixed.

The Transportation-Multiple and MoE-Multiple Subfamilies are cases that required detailed Function and Account level analysis. ResCens in the Multiple Subfamilies perform a wide range of activities and incur costs that may be Fixed, Avoidable, or Mixed. The approach for calculating Fully Allocated Costs for these multi-purpose ResCens is to apply the same logic for specific cost Functions and Accounts as was used in the corresponding single-purpose Subfamilies. The same approach is used for estimating Avoidable Costs for multi-purpose ResCens, namely Avoidable Costs, which are estimated utilizing the methods and formulas applied to the Functions and Accounts in single-purpose Subfamilies. Typically, groups of Functions used in a multiple Subfamily are identified as corresponding to similar Functions used in another Subfamily for which an Avoidable Cost approach has already been defined. Then the latter Subfamily's Avoidable Cost approach is used to estimate Avoidable Costs for these groups of Functions. For example, in the MoE-Multiple Subfamily, the avoidability of costs coded to car maintenance Functions is estimated using the cost equations developed for similar Functions in the MoE-Car Maintenance Subfamily (classified as Mixed-Statistical). Although a statistical approach may be used to estimate Avoidable Costs for a group in Functions, Multiple Subfamilies are still classified as Mixed-Detailed because of the detailed Function and Account level analysis required.

8.1.1 MoW Track Subfamily

Family: **MoW - #100**
Subfamily: **MoW Track - #101**
Approach: **Mixed-Detailed**

Scope

The MoW Track Subfamily performs maintenance and capital work on track assets along the ROW, including the roadbed, rails, cross-ties, ballast, and grade crossings. Most track maintenance work is related to Amtrak-owned track and other assets on the NEC, the Keystone Corridor in Pennsylvania, and in Michigan,[41] although some work is performed on other Amtrak-owned assets. In addition, this Subfamily also incurs expenses for maintenance and repairs performed for Amtrak by other railroads and by Amtrak for various commuter agencies on a reimbursable basis. Amtrak's track is used not only by Amtrak, but also by commuter

[41] Amtrak's primary track holdings are as follows:
Northeast Corridor (363 of 456 NEC miles)
New Haven, CT to Springfield, MA (60.5 miles)
Philadelphia to Harrisburg, PA (104 miles)
Michigan (97 miles)
Seven tunnels (29.7 miles)
1,186 bridges (42.5 miles)

agencies and freight railroads, and this fact has important implications for the avoidability of costs incurred within this Subfamily.

Total Subfamily costs for FY07 were $156.9 million, including $100.5 million in capital, reimbursable and commuter-related expenses that are not operating costs for Amtrak trains. The remaining $56.4 million represent Amtrak's allocated operating costs.

Avoidable Cost Approach

The statistical methods used to estimate avoidable costs for some other Subfamilies are not practical for estimating avoidable costs for the MoW-Track Subfamily for several reasons. In particular, it is not possible to estimate avoidable cost functions for this Subfamily because, although ResCen cost information is available, neither corresponding train activity statistics nor data on track length per ResCen (necessary to appropriately scale ResCen costs) is available. Further, because ResCens within this Subfamily differ greatly in terms of the length and complexity of track segments and types of other nonlinear assets for which they are responsible and the nuances of the geographical areas in which they operate, comparing costs across ResCens is not practical. Rather, the methodology estimates avoidable costs for this Subfamily using a combination of business judgment and a step by step disaggregating of total costs by Function and train activity to arrive at an estimate of costs that would be eliminated if a particular route were to be eliminated.

Several observations and assumptions regarding the MoW-Track Subfamily are necessary to sufficiently simplify the analysis to enable the avoidable costs of a route to be estimated. First, it is important to recognize that most costs within this Subfamily are capital-related. Some costs are related to Amtrak's Reimbursable and Commuter businesses. However, only avoidable costs related to Amtrak's NTS operations need to be estimated as part of this Subfamily methodology. Out of total Subfamily costs of $156.9 million in FY07, only $56.4 million represent Amtrak route operating costs and are potentially avoidable. Costs coded to Capital Functions in this Subfamily, such as FN3501, Road Land & Other WIP, and FN3077, SEPTA Joint Benefit Capital, total almost $86 million and are not avoidable in this Subfamily. Costs coded to Reimbursable and Recollectable Functions total more than $15 million and are also not avoidable. In addition, certain ResCens in this Subfamily, such as RC7261, Peninsula Maintenance of Rail Line, pertain entirely to Commuters and their costs are not avoidable.

It is also important to recognize that costs within this Subfamily are related to track Amtrak owns on the NEC, the Keystone Corridor in Pennsylvania, and in Michigan and that most of this track is used to some extent by Commuters and freight railroads. Due to these other users, the methodology assumes, as a general rule, that Amtrak cannot completely stop maintaining a particular track asset even if it were to completely eliminate all of its Routes utilizing that asset. On the other hand, some costs in this family are incurred to maintain more minor track assets in other areas of the country: costs related to such minor assets that are specific to a single Amtrak Route are assumed to be avoidable in the long term if that Route is eliminated. For example, RC3205, MoW Sanford, FL, only serves the Auto Train, therefore, costs coded to that ResCen ($313,858 in FY07) are avoidable in the short term if the Auto Train were to be discontinued.

Finally, except for certain single-route-specific ResCens, the approach assumes that costs associated with certain Function (e.g., FN1751, MoW Overhead) are fixed, while costs coded to other Functions are at least partially avoidable. Costs that are assumed to be partially avoidable are generally avoidable proportional to some measure of train activity for all track users (Amtrak, commuters, and freight railroads), taking into considerations factors such as train weight/axle load, train speed, and/or required track class. Certain maintenance activities, such as track inspection, vegetation and snow removal, and track and roadbed cleaning, are scheduled on the basis of time and, therefore, are not directly related to train activity. For example, while track inspection is mandated by regulation and those regulations likely are more burdensome for higher track classes, in practice—according to Amtrak staff—track inspection standards are set by company policy and are consistent across all Amtrak-owned track. As a result, the methodology assumes that inspection costs are only partially avoidable both overall and relative to track class.

Detailed Methodology Description

Rather than perform a detailed Function by Function analysis to determine the degree to which each Function is related to train activity, this analysis relies on the Fully Allocated cost methodology for the MoW-Track Subfamily to provide a basic breakdown between costs that are fixed and those that are potentially avoidable. In the MoW-Track Subfamily's Fully Allocated cost method, direct Functions cost are allocated using TUT as a proxy for preferred statistics, such as GTM or TUM, while indirect Function costs are allocated using MWDC as they are not tied directly to train activity. Table 8-1 lists the Functions included in the MoW-Track Subfamily profile used in the Fully Allocated cost methodology, except for Functions whose costs are unallocated and hence irrelevant to estimating avoidable costs for Amtrak's routes. Utilizing the same distinction between Functions as in the Fully Allocated cost methodology, the Avoidable Cost methodology for this Subfamily assumes that indirect Function costs allocated by MWDC are fixed while direct Function costs allocated by TUT are potentially avoidable. Miscellaneous Functions are included in the fixed category as they are allocated by MWDC.

Table 8-1: Subfamily #101, Track Subfamily Fully Allocated Cost Profile (unallocated Functions excluded)

Function	Function Description	Statistic	Statistic Description	Cost Category	FY07 Actual Expenses
FN1702	Roadway Maintenance	TUT	Total Unit Trips	Partially Avoidable	3,969,710
FN1703	Track Maintenance	TUT	Total Unit Trips	Partially Avoidable	17,122,055
FN1704	Public ROW Maintenance	TUT	Total Unit Trips	Partially Avoidable	3,965
FN1711	RR Track & Roadway	TUT	Total Unit Trips	Partially Avoidable	(1,631)
FN1726	Roadway Bldg Maintenance	TUT	Total Unit Trips	Partially Avoidable	250,679
FN1733	Roadway Machine Maintenance	TUT	Total Unit Trips	Partially Avoidable	1,200,618

Function	Function Description	Statistic	Statistic Description	Cost Category	FY07 Actual Expenses
FN1734	Work Equip Maintenance	TUT	Total Unit Trips	Partially Avoidable	1,768,122
FN1741	Wrecks Storms Other-Track Repairs	TUT	Total Unit Trips	Partially Avoidable	2,266,589
FN1748	Snow and Ice Removal-Row	TUT	Total Unit Trips	Partially Avoidable	732,186
FN1844	Vehicle And Equipment Repairs	TUT	Total Unit Trips	Partially Avoidable	809,948
FN1131	Training Amtrak	MWDC	MoW Direct Costs	Fixed	2,311,977
FN1234	SAP Payroll Adjustments	MWDC	MoW Direct Costs	Fixed	212,788
FN1701	MoW Managerial	MWDC	MoW Direct Costs	Fixed	2,568,069
FN1751	MoW Overhead	MWDC	MoW Direct Costs	Fixed	20,780,700
FN1796	MoW Material Control	MWDC	MoW Direct Costs	Fixed	5,566
FN1798	MoW Spec Project	MWDC	MoW Direct Costs	Fixed	1,295,489
FNxxxx	All other functions	MWDC	MoW Direct Costs	Fixed	1,198,964

The main costs considered partially avoidable are track maintenance, roadway maintenance, repairs related to wrecks, storms and other incidents, and work and roadway equipment maintenance. Discussions with Amtrak staff confirmed that a large reduction in the number of trains would likely impact routine track maintenance costs, particularly those directly related to train activity. Amtrak staff stated that activities performed using each of these Functions are partially fixed because (1) a large proportion of maintenance costs are related to track inspections, which are set by policy and are not related to activity levels; (2) the same ResCen resources are used for track maintenance, track reimbursable work, and track Capital improvements, therefore, a reduction in routine maintenance and repair activity will not trigger a corresponding reduction in ResCen costs; and (3) certain costs coded to the track and roadway maintenance functions, such as vegetation and snow removal, are not related to train activity. These factors, in combination, suggest that even those functions considered variable have a fixed component. Absent a statistical approach, estimating the share of these function costs that is avoidable must necessarily rely on professional judgment since it is reasonable to assume that these costs would decline if an entire Amtrak Route were discontinued.

After consultation with Amtrak staff, the decision was that costs coded to the partially avoidable functions detailed above will be treated as 50 percent Avoidable (the Avoidable Percentage). This reflects the decision to treat other functions as 100 percent Fixed so that the resulting proportion of total costs in this Subfamily, which is treated as fixed, is greater than 50 percent. This Avoidable Percentage will be applied to MoW-Track function costs as detailed in Table 8-1 above to determine a Route's long-term Avoidable Cost. Short-term avoidable costs will not be calculated for this Subfamily. Because the majority of costs are Capital-related and even those partially avoidable costs have a large fixed component, staffing and resource levels would not adjust in the short term enough to calculate a short-term Avoidable Cost amount and are assumed to be fully fixed.

Using the Function detail from Table 8-1 in FY07, $28.3 million (50.2 percent) of MoW-Track Subfamily allocated costs are fixed while the remaining $28.1 million (49.8 percent) are partially

avoidable. Applying the Avoidable Percentage to the latter, $14.1 million of Subfamily operating costs remain to be considered as Avoidable if a Route is eliminated. These costs are considered avoidable proportional to train activity of all types. In the Fully Allocated methodology, these operational costs are allocated to Amtrak train, Commuters, and freight railroads; however, the notion of Avoidable Costs only pertains to those costs that would be avoided if Amtrak were to eliminate one of its own routes. Therefore, the operational costs allocated to Commuters and freight railroads (approximately 44 percent of MoW-Track operational costs) are also treated as fixed in estimating Amtrak's Avoidable Costs.[42]

After Capital, Reimbursable, Commuter, freight railroad, and fixed costs are removed from consideration, roughly $7.9 million, only about 5.0 percent of total annual Subfamily costs, are potentially avoidable. These costs are avoidable in proportion to some measure of activity for each Amtrak Route. The Fully Allocated cost methodology allocates costs based on each train's share of TUT. Although TUT is an acceptable statistic for apportioning costs among Amtrak trains, Commuters, and freight railroads, it does not take into consideration the impact of train weight, train speed, and/or required track class. At a minimum, the Avoidable Cost methodology must consider train weight and must distinguish between the Acela Route, which requires that track be maintained to a Class 8 standard, and other Amtrak Routes, which do not require that track be maintained to that standard. Costs for partially avoidable functions will be treated as avoidable in proportion to the statistics specified in Table 8-2. Costs coded to FN1703, Track Maintenance, which is used to record costs for track maintenance, repairs and inspections, will be treated as avoidable in proportion to Acela-weighted GTM. Acela-weighted GTM (AGTM) is a statistic that weights GTM for Acela trains by a factor of 1.2[43] to account for the higher speed at which Acela trains operate and the higher Track Class required for Acela service and non-Acela trains by a neutral factor of 1.0. Functions labeled as partially avoidable will be treated as avoidable in proportion to a train's GTM relative to GTM for all trains.

Table 8-2: Subfamily #101, Track Subfamily Avoidable Cost Profile (unallocated Functions excluded)

Function	Function Description	Statistic	Statistic Description	Cost Category
FN1702	Roadway Maintenance	GTM	Gross Ton Miles	Partially Avoidable
FN1703	Track Maintenance	AGTM	Acela-Weighted Gross Ton	Partially Avoidable
FN1704	Public ROW Maintenance	GTM	Gross Ton Miles	Partially Avoidable
FN1711	RR Track & Roadway	GTM	Gross Ton Miles	Partially Avoidable
FN1726	Roadway Bldg Maintenance	GTM	Gross Ton Miles	Partially Avoidable
FN1733	Roadway Machine	GTM	Gross Ton Miles	Partially Avoidable
FN1734	Work Equip Maintenance	GTM	Gross Ton Miles	Partially Avoidable
FN1741	Wrecks Storms Other-Track	GTM	Gross Ton Miles	Partially Avoidable
FN1748	Snow and Ice Removal-ROW	GTM	Gross Ton Miles	Partially Avoidable

[42] Freight and Commuter GTM were roughly 43.7 percent of total GTM on Amtrak track in the Northeast in 2006 according to a September 2007 benchmarking study produced by Amtrak. The fully allocated cost methodology allocates the function costs labeled Partially Avoidable in Table 7-1 above using TUT as a proxy for GTM because Amtrak does not have an automated source of GTM data for Commuters and freight railroads.

[43] The weighting factor for Acela trains will be evaluated in consultation with Amtrak and will be the subject of a subsequent technical study.

Function	Function Description	Statistic	Statistic Description	Cost Category
FN1844	Vehicle And Equipment	GTM	Gross Ton Miles	Partially Avoidable
FN1131	Training Amtrak	N/A		Fixed
FN1234	SAP Payroll Adjustments	N/A		Fixed
FN1701	MoW Managerial	N/A		Fixed
FN1751	MoW Overhead	N/A		Fixed
FN1796	MoW Material Control	N/A		Fixed
FN1798	MoW Spec Projects	N/A		Fixed
FNxxxx	All other functions	N/A		Fixed

Summary

While this approach relies to a great extent on professional judgment regarding the nature of Function costs, it improves upon the unreasonable premise that MoW-Track costs are completely fixed. After Capital, Reimbursable, Commuter, and freight railroad costs are excluded from consideration as Avoidable with respect to Amtrak routes (i.e., assumed as fixed), the remaining operational costs in the MoW-Track Subfamily are classified by their functions as either fixed or partially avoidable. Costs for partially avoidable functions are multiplied by the Avoidable Percentage, 50 percent for this Subfamily, and then allocated to trains using either GTM or AGTM depending on the function and then aggregated to determine a Route's avoidable cost for MoW-Track.

8.1.2 MoW Communications & Signal Subfamily

Family: **MoW - #100**
Subfamily: **MoW Communications & Signal - #102**
Approach: **Fixed**

Scope

The MoW C&S Subfamily maintains Amtrak's communications systems, such as telegraph, telephone, radio systems, and train signal and interlocking systems. It also performs maintenance on communications-related buildings, ROW, and other facilities along the NEC and at other facilities, all of which serve multiple Routes.

Subfamily expenditures for FY07 were $92.7 million and account for 2.2 percent of Amtrak's total expenditures.

Avoidable Cost Approach

Based on qualitative analysis and professional judgment, the determination was virtually all of the costs in this Subfamily are fixed with respect to a single Amtrak route. Amtrak is required to maintain these assets, irrespective of the level of train service that it operates. Furthermore, after consultation with Amtrak MoW field staff and management, it was determined that the level of

maintenance activity is essentially unrelated to the level of train activity and thus Avoidable Costs for a particular route would not be significant or measurable.

Summary

Costs in the C&S Subfamily are 100 percent fixed with respect to a single Amtrak Route due to Amtrak's obligation to maintain these assets for Amtrak's multiple services and other users.

8.1.3 MoW Electric Traction Subfamily

Family: **MoW - #100**
Subfamily: **MoW Electric Traction - #103**
Approach: **Mixed-Detailed**

Scope

The MoW Electric Traction (MoW-ET) Subfamily operates the electric propulsion systems and performs maintenance and capital work on Amtrak's electric transmission infrastructure. This infrastructure includes the catenary and support apparatus, transmission systems between power plants and the network, power substations along the corridor, as well as the structures that house these systems. Operating costs also include salaries and benefits for power directors and load dispatchers.

Total Subfamily expenditures for FY07 were $65.2 million, including $37.3 million in Capital and Reimbursable expenses that are not operating costs for Amtrak trains. The remaining $27.8 million represents Amtrak's allocated operating costs.

Avoidable Cost Approach

Statistical methods were not used to estimate an avoidable cost equation for this Subfamily. Instead, the MoW-ET Subfamily utilizes a disaggregated deductive approach to estimate avoidable costs. The majority of expenditures in this Subfamily represent Capital and Reimbursable work. Only $27.8 million or 42.7 percent of total costs correspond to operating costs. This sum includes both fixed and avoidable costs. Rather than perform a detailed analysis of individual Functions to determine the degree to which each Function is related to train activity, the approach relies on the Fully Allocated cost methodology for the Subfamily to provide a basic breakdown between costs that are fixed and those that are potentially avoidable.

In the MoW-ET Subfamily's Fully Allocated Cost method, direct Functions are allocated using Electric Unit Miles (EUM). However, indirect costs are allocated by MoW Direct Costs (MWDC) as they are not tied directly to train activity.

Table 8-3 lists the Functions included in the MoW-ET Subfamily Profile used in the Fully Allocated methodology, but with the unallocated Functions excluded. As indicated in the table, indirect costs are allocated to trains based on MWDC, which represents their proportional share of total MoW-ET Subfamily direct costs (as allocated by EUM). Using the same distinction

between Functions are in the Fully Allocated methodology, the Avoidable Costs methodology for this Subfamily assumes that indirect Function costs allocated by MWDC are fixed while direct Function costs allocated by EUM are potentially avoidable. In this Subfamily, miscellaneous Functions are included in the fixed category as they are allocated by MWDC.

Table 8-3: Subfamily #103, Electric Traction Function Profile (unallocated Functions excluded)

Function	Function Description	Statistic	Statistic Description	Cost Category	FY07 Actual Expenses
FN1131	Training – Amtrak	MWDC	MoW Direct Costs	Fixed	$1,834,556
FN1234	SAP Payroll Adjustments	MWDC	MoW Direct Costs	Fixed	$182,921
FN1701	MoW Managerial	MWDC	MoW Direct Costs	Fixed	$4,174,365
FN1718	Power Transmission System Maintenance	EUM	Electric Locomotive Unit Miles	Partially Avoidable	$4,608,274
FN1719	Power Transmission System Operations	EUM	Electric Locomotive Unit Miles	Partially Avoidable	$1,183,660
FN1724	Power Plant & Substation Maintenance	EUM	Electric Locomotive Unit Miles	Partially Avoidable	$2,445,008
FN1747	Wrecks Storms Other-ET Repair	EUM	Electric Locomotive Unit Miles	Partially Avoidable	$692,861
FN1751	MoW Overhead	MWDC	MoW Direct Costs	Fixed	$9,022,330
FN1796	MoW Material Control	MWDC	MoW Direct Costs	Fixed	$56,050
FN1798	MoW Special Project	MWDC	MoW Direct Costs	Fixed	$1,196,607
FN1844	Vehicle And Equipment Repairs	EUM	Electric Locomotive Unit Miles	Partially Avoidable	$330,233
FNxxxx	All other functions	MWDC	MoW Direct Costs	Fixed	$2,109,948

The costs considered partially avoidable are (1) repair and maintenance costs of the power transmission systems that are not performed as part of capital projects, such as wreck, weather, or other repairs; (2) costs for maintenance of the power plants and substations used in the MoW-ET system; and (3) operating costs of the MoW-ET system, including the labor costs of system power directors and load dispatchers.

Discussions with Amtrak MoW staff suggest that the costs for activities performed using each of the direct cost Functions are partially fixed, meaning, they are less than 100 percent avoidable. In particular, MoW-ET staff stated that (1) as the NEC is currently not at a "state of good repair,"

the majority of activity is focused on capital work and most repairs are done as part of capital projects and thus excluded from consideration as avoidable operating costs; (2) inspection costs are focused on critical elements of the MoW-ET system that must be inspected regardless of activity levels; (3) not all types of repair costs are related to train activity, such as tree and vegetation clearing; and (4) the signal system is powered through the MoW-ET infrastructure and some of the transmission systems would need to be maintained even if Amtrak operated no electric trains.

These factors in combination suggest that even direct cost Functions have a fixed component. Absent a statistical approach, identifying the share of these costs that is Avoidable is based on professional judgment since it is reasonable to assume that these costs would decrease if an entire Amtrak route were discontinued. After consultation with Amtrak staff, it was assumed that costs associated with direct Functions would be considered 50 percent avoidable. This reflects the decision to treat other functions as 100 percent Fixed so that the total fixed portion of costs in this Subfamily is more than 50 percent. This Avoidable percentage will be applied to MoW-ET costs to determine a route's long-term Avoidable Cost. Short-term Avoidable Costs will not be calculated for this Subfamily. As the majority of expenditures are capital-related and even those partially Avoidable Costs have a large fixed component, staffing and resource levels would not adjust in the short term enough to calculate a short-term Avoidable Cost figure and are assumed to be fully fixed.

Using the Function detail from Table 8-13, in FY07, $18.6 million (59.2 percent) of MoW-ET Subfamily allocated costs were fixed whereas the remaining $9.3 million are partially avoidable. Applying the Avoidable Percentage to these costs, $4.6 million of total Subfamily operating costs remain that are considered avoidable proportional to train activity. In the Fully Allocated methodology, these operating costs are allocated by EUM to both Amtrak and commuter trains. However, the notion of Avoidable Costs only pertains to those costs that would be avoided if Amtrak were to eliminate one of its own routes. Therefore, the operating costs allocated to Commuters (roughly 40 percent of MoW-ET operating costs) are also fixed with respect to Amtrak's Avoidable Costs.

After Capital, Reimbursable, Commuter, and fixed costs are removed from consideration, roughly $2.9 million, less than 5 percent of the total annual Subfamily expenditures, is the estimate of Avoidable costs based on FY07 data. This remainder is avoidable in proportion to each Amtrak route's share of EUM.

Summary

While this approach relies on professional judgment regarding the nature of Function costs, it improves upon the unreasonable premise that MoW costs are completely fixed. After Capital, Reimbursable, and Commuter costs are eliminated from consideration, remaining operating costs in the MoW-ET Subfamily are classified by their Functions as either Fixed or Partially Avoidable. Costs for the Partially Avoidable Functions are multiplied by the percent avoidable, which is set at 50 percent for the Subfamily and aggregated to determine a route's Avoidable MoW-ET Costs

8.1.4 MoW Bridges & Buildings (B&B) Subfamily

Family: **MoW - #100**
Subfamily: **MoW Bridges & Buildings - #104**
Approach: **Fixed**

Scope

The MoW B&B Subfamily maintains a subset of Amtrak's physical assets, including tunnels, bridges, culverts, overhead highway bridges, signs, and buildings, both for the MoW Family and for other Amtrak departments.

Subfamily expenditures for FY07 were $62.5 million and account for 1.5 percent of Amtrak's total expenditures.

Avoidable Cost Approach

Based on qualitative analysis and professional judgment, it was determined that these costs are fixed with respect to a single Amtrak route. Amtrak is required to maintain these assets, irrespective of the level of service that it operates. Furthermore, after consultation with Amtrak MoW field staff and management, it was determined that any Avoidable Costs for a particular route would not be significant or measurable.

Summary

Costs in the B&B Subfamily are 100 percent fixed with respect to a single Amtrak Route due to Amtrak's obligation to maintain its assets for Amtrak's multiple services and other users.

8.1.5 MoW Support Subfamily

Family: **MoW - #100**
Subfamily: **MoW Support - #105**
Approach: **Fixed**

Scope

The MoW Support Subfamily performs general support activities for ResCens in the other MoW Subfamilies (Track, C&S, ET and B&B). These activities include management and supervision, training, material control and procurement, support for work, wire and wreck trains, planning and support for specific capital projects, and related activities.

Subfamily expenditures for FY07 were $248.1 million and account for 5.8 percent of Amtrak's total expenditures.

Avoidable Cost Approach

This Subfamily supports and manages the other MoW Subfamilies, whose costs are largely fixed. Based on qualitative analysis and professional judgment, it was determined that costs incurred in this Subfamily are by their nature overhead for the MoW Family and fixed with respect to a single Amtrak route. Amtrak is required to maintain most of its assets, irrespective of the level of service that it operates. Furthermore, after consultation with Amtrak MoW field staff and management, it was determined that any Avoidable Costs for a particular route would not be significant or measurable.

Summary

Costs in the MoW-Support Subfamily are 100 percent fixed with respect to a single Amtrak Route. This Subfamily supports the other MoW Subfamilies, whose costs are largely fixed due to Amtrak's obligation to maintain its assets for Amtrak's multiple services and other users.

8.2 MoE Family

8.2.1 MoE Turnaround Subfamily

Family: **MoE - #200**
Subfamily: **MoE Turnaround - #201**
Approach: **Mixed-Statistical**

Scope

The MoE Turnaround Subfamily performs cleaning, inspections, and minor repairs on Amtrak trains and Amtrak-operated commuter trains before each departure and also enroute. Turnaround facilities can work exclusively on cars, locomotives, or both types of equipment. At some locations, turnaround services are performed by outside contractors rather than Amtrak employees. Additionally, the Turnaround Subfamily includes Amtrak employees known as "train riders" accompany trains and performs minor enroute repairs as required.

Subfamily costs for FY07 were $113.8 M and account for 2.7 percent of Amtrak's total costs.

Regression Data

Three years of cost and activity data for the Turnaround Subfamily ResCens were assembled and analyzed as a panel dataset. Not all ResCens were included; specifically, ResCens 4306, 6652, 6660, 7281, 7172, 7150, 7162, 7173, 4306, and 7281 were removed from the analysis because they served commuter rail service and the focus of the Avoidable Cost analysis is only on the Amtrak routes. ResCens 6669, 7963, and 7160 were also removed from the analysis due to lack of activity data. ResCens 3118, 3119, 3120 were excluded because (1) they only serve Amtrak's single speed rail route and are therefore fully avoidable by definition, and (2) they have different cost characteristics from ResCens serving standard Amtrak routes. Eight ResCens were

combined into two ResCen groups (RC4252-55, RC4433-38) because they shared turnaround responsibilities at the same locations.

Statistical Model and Results

Linear, log-log, and linear-log functional forms were tested for the Turnaround Subfamily. The log-log relationship was found to have the best statistical fit for this Subfamily. Long-run Avoidable Costs were found to be larger than short-run Avoidable Costs, which is intuitively correct.

Turnaround costs rise at a decreasing rate with increases in passenger activity. This indicates that the Turnaround Subfamily exhibits economies of scale. Turnaround costs change more dramatically in the long-run compared to the short-run, indicating that some costs exist that cannot be avoided within a year of a change in activity levels.

Turnaround ResCens run by contractors were expected to have a different long-run cost function because their cost structure has less rigidity. Therefore, a contract dummy was included in the estimation of the long-run (between-effects) model. The contract dummy was found to reduce the constant for contractor-staffed ResCens relative to the Amtrak staffed turnaround ResCens. As a result, contract-staffed turnaround ResCens have larger Avoidable Costs than Amtrak-staffed ResCens for a given reduction in activity because the change occurs at a point where economies of scale have a smaller effect, such as the cost changes (savings) are larger as activity is reduced.

Including a contract dummy in the short-run (fixed-effects) model would be statistically inappropriate. The short-run model measures changes in costs due to activity changes from one period to another, but does not take into account differences between ResCens, for example, it is focused on differences over time and essentially ignores differences between ResCens. Thus, it is not designed to identify differences between types of ResCens such as contract versus noncontract.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Ln(Cost) – Constant + B * ln(TUT)
Observations	135
R-square	0.243

The short-run (fixed–effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	8.72	99%
TUT	0.50	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	Significance Level
Constant	7.62	99%
Contract	-0.46	70%
TUT	0.61	99%

These regression equations are used to generate predicted ResCen costs before and after a route is eliminated. Avoidable Costs are calculated by applying the resulting percentage change in predicted costs to actual ResCen costs.

8.2.2 Locomotive Maintenance Subfamily

Family: **MoE - #200**
Subfamily: **Locomotive Maintenance - #202**
Approach: **Mixed-Statistical**

For purposes of developing an Avoidable Cost methodology, the Locomotive Maintenance Subfamily was combined with the Car Maintenance Subfamily. The analysis and results are described in Section 8.2.3 below.

8.2.3 Car Maintenance and Locomotive Maintenance Subfamilies

Family: **MoE - #200**
Subfamilies: **Locomotive Maintenance - #202 and Car Maintenance - #203**
Approach: **Mixed-Statistical**

Scope

The ResCens in Subfamilies 202 and 203 perform maintenance work on Amtrak's diesel and electric locomotives and on its passenger coaches and other types of cars, respectively. The work performed in these Subfamilies includes both preventive maintenance and as-needed maintenance. No significant capital work is undertaken in this Subfamily; instead, the Backshop Subfamily performs such capital work.

Locomotive Maintenance Subfamily expenditures for FY07 were $54.9 million and account for 2.7 percent of Amtrak's total, whereas Car Maintenance Subfamily expenditures were $41.7 million and account for 1.0 percent of Amtrak's total expenses.

Regression Data

Activity and cost data for these Subfamilies were available from 2005 through 2007. After an initial examination of the data, three ResCens within Subfamily 202 that had negative costs were

removed from the dataset leaving six ResCens with 18 observations. Subfamily 203 contained eight ResCens and with 24 observations. To be able to capture statistically valid information on how activity affects costs at these ResCens, a combined dataset was created using cost and activity information for Families 202 and 203. The combined dataset had 42 observations across 14 ResCens. Activity statistics tested were selected based on their logical and intuitive relationship with cost levels at these ResCens.

Statistical Model and Results

A preliminary examination of scatter plots of cost against activity suggested that a linear form equation best captures the relationship between these variables. Other functional forms, such as log-log and log-linear, were also examined. For the combined 202 and 203 Subfamilies, the linear form equation provided the best explanation of changes in costs relative to activity.

The most appropriate model was selected by examining regression statistics and using insight into which activities would logically drive costs for these Subfamilies. The statistical tests provided guidance on which specification captured most of the variation in Avoidable Costs relative to a particular activity. The best specification was found when using a linear model and TTM as the activity statistic.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * TTM
Observations	42
R-square	0.53

The short-run (fixed-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	1,403,475	85%
TTM	0.38	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	-1,241,950	48%
TTM	0.63	99%

These results indicate a linear relationship between costs within these two maintenance Subfamilies and TTM. The linear equation form shows no appearance of any economies of scale

for these Subfamilies. The increase in the coefficient on TTM between the short-run and long-run equations provides evidence that the potential for costs savings is higher in the long run.

These regression equations are used to generate predicted ResCen cost before and after elimination of a route. Avoidable Costs are calculated by applying the percentage change in predicted costs to actual ResCen costs.

8.2.4 MoE Support Subfamily

Family: **MoE - #200**
Subfamily: **MoE Support - #204**
Approach: **Mixed-Statistical**

Scope

The MoE Support Subfamily performs managerial, administrative, material control, and other activities in support of turnaround servicing, rolling stock maintenance and repair, and component work performed in the various Amtrak mechanical shops.

Subfamily expenditures for FY07 were $68.7 million and account for 1.7 percent of Amtrak's total expenses.

Regression Data

Cost and associated activity data were available for this Subfamily for the 3-year period from 2005 through 2007. An initial examination of these data showed many ResCens with costs, but no associated activity. Additionally, some ResCens had negative cost data. These ResCens were removed from the regression dataset. Activity statistics were selected for testing based on whether they measured activities that would logically affect costs at these ResCens.

Statistical Model and Results

A preliminary examination of scatter plots suggested that the relationship between ResCen cost and train activity is best represented by transforming the data into log form. Fixed, between and random-effects models were tested using both log form and linear form data. The best model was selected by examining regression statistics and using professional judgment regarding which types of train activities would logically drive ResCen costs for this Subfamily. Statistical tests provided guidance on which specification best explained the variation in ResCen costs relative to changes in train activity. Log form equations exhibited the best fit in terms of explaining this variation. Using this functional form, TTM was selected as the best predictor of ResCen costs out of the available train activity statistics.

Long-run Avoidable Costs were found to be statistically equivalent to short-run Avoidable Costs. A Hausman test was used to verify that the random-effects results are statistically equivalent to the fixed-effects results. Thus, the random-effects results represent the best estimate of both long- and short-run Avoidable Costs for the Transportation Support Subfamily.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Ln(Cost) = Constant + B * ln(TTM)
Observations	177
R-square	0.42

The short-run and long-run (random-effects) model results are provided in the following table.

	Coefficient	Significance Level
Constant	1.72	82%
TTM	0.72	99%

These results show a positive relationship between Transportation Support costs and TTM. The equation is specified in log-log form, which indicates the existence of economies of scale for this Subfamily. The potential for cost savings for this Subfamily are statistically equivalent across the short and long run, suggesting that all costs that can be avoided are avoidable within a year of a change in activity levels as measured by TTM.

This regression equation is used to generate predicted ResCen costs before and after a route is eliminated. Avoidable Cost is calculated by applying the percentage change in predicted cost to actual ResCen costs.

8.2.5 MoE Multiple Subfamily

Family: **MoE - #200**
Subfamily: **MoE-Multiple - #205**
Approach: **Mixed-Detailed**

Scope

ResCens in the MoE-Multiple Subfamily do not perform one primary activity, but rather perform multiple mechanical-related activities using various Functions that are typically used in other Subfamilies within the MoE Family. The ResCens in this Subfamily perform two or more main activities to a degree that precludes their inclusion in a single Subfamily. The types of activities performed at these ResCens include turnaround servicing, locomotive maintenance, and car maintenance.

Subfamily expenditures for FY07 were $123.4 million and account for 3.0 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Fully Allocated Cost methodology for the MoE-Multiple Subfamily relies upon the allocation methodologies used in the MoE-Turnaround, Locomotive Maintenance, Car Maintenance, and Support Subfamilies. Expenditures coded to certain Functions in the MoE-Multiple Subfamily are allocated using the same rules used to allocate expenditures coded to the same Functions in other MoE Subfamilies. This approach ensures that similar types of expenditures are allocated in a consistent manner within the entire MoE Family.

The Avoidable Cost approach for the MoE-Multiple Subfamily utilizes a similar strategy. Estimating Avoidable Costs for the MoE-Multiple Subfamily is not possible using a single method because expenditures in this Subfamily are coded to many unrelated Functions. Furthermore, each ResCen may use multiple types of Functions. Therefore, grouping ResCens together by Function into Subcategories is not possible within the MoE-Multiple Subfamily to conduct a separate statistical analysis.

To provide insight into the Avoidable Cost structure within the MoE-Multiple Subfamily, costs were grouped by Function and then by the MoE Subfamily in which the Function typically is utilized. Using this approach, costs in this Subfamily can be categorized as follows:

Table 8-4: Expenditures in the MoE-Multiple Subfamily Related to other MoE Subfamilies

Related MoE Subfamily	FY07 Expenditure (millions)	Share of MoE-Multiple Subfamily
Turnaround Service	$50.7	36.1%
Car Maintenance	$31.0	22.1%
Support	$30.4	21.7%
Locomotive Maintenance	$12.7	9.1%
Direct to Capital or Commuter	$14.4	10.2%
Miscellaneous	$1.2	0.9%

The main expenditures within this Subfamily are related to Turnaround Service, MoE Support and Car Maintenance activities. Together these activities account for more than three-quarters of all expenditures within the MoE-Multiple Subfamily. Locomotive maintenance accounts for a much smaller portion as do expenditures coded directly to a specific customer.

Grouping MoE-Multiple Subfamily costs by Function allows Avoidable Cost statistical results from the other directly related MoE Subfamilies to be extrapolated to this Subfamily. For example, to estimate the avoidability of Turnaround costs within the MoE-Multiple Subfamily, the Avoidable Cost equation for Turnaround Subfamily #201 is used. Because the relationship between Turnaround costs and activity can be assumed to be the same between this Subfamily and the Turnaround Subfamily, the results from the statistical analysis of costs and activity in the Turnaround Subfamily can be applied to estimate Avoidable Costs for Turnaround Functions in the MoE-Multiple Subfamily.

The same approach is applied to each of the major Subfamily costs identified in the MoE-Multiple Subfamily. The matching statistical results used are as follows:

Table 8-5: Approach Used Within the MoE-Multiple Subfamily

Related MoE Subfamily	Approach Used
Turnaround Service	Subfamily #201 Avoidable Cost Equation
Car Maintenance	Subfamily #202/203 Avoidable Cost Equation
MoE Support	Subfamily #204 Avoidable Cost Equation
Locomotive Maintenance	Subfamily #202/203 Avoidable Cost Equation

This approach allows the statistical analyses from closely related MoE Subfamilies to be used to estimate Avoidable Costs within the MoE-Multiple Subfamily. Through this approach, Avoidable Costs can be estimated for approximately 80 percent of all activity-related costs in the MoE-Multiple Subfamily.

Costs associated with miscellaneous Functions that cannot be analyzed using the above approach are treated as Fixed within the MoE-Multiple Subfamily. Expenditures associated with the Reimbursable business, such as equipment repair expenditures for Commuter agencies, are not allocated to Amtrak trains and are automatically excluded from Avoidable Cost estimates. Capital expenditures within this Subfamily become part of Amtrak's capital assets and are included in the Capital Subfamily #701 and follow that Subfamily's Avoidable Cost method.

Summary

The MoE-Multiple Subfamily is composed of ResCens that perform several activities normally associated with different Subfamilies within the MoE Family. To calculate Avoidable costs for this Subfamily, functions within the MoE-Multiple Subfamily that are associated with another MoE Subfamily use that Subfamily's statistically estimated equation parameters (see Table 8-6 for specific details). For example, functions associated with the Turnaround Family use that Subfamily's equations. Thus, the various functions use another Subfamily's statistically estimated equation parameters or are classified as Fixed or are excluded from the analysis.

Table 8-6 summarizes the Avoidable Cost estimation approach for this Subfamily by Function.

Table 8-6: Grouping of Functions by Subfamily within MoE-Multiple - #205

Function	Function Description
Use the Avoidable Cost Equation for MoE Turnaround - #201	
FN1821	Locomotive Electric Turnaround Service
FN1828	Car Turnaround Service
FN1862	Locomotive Diesel Turnaround Service
Use the Avoidable Cost Equation for Locomotive Maintenance/Car Maintenance	

Function	Function Description
- #202/#203	
FN1822	Locomotive Electric Program Service
FN1823	Locomotive Electric Bad Orders
FN1824	Locomotive Electric Light Overhaul
FN1825	Locomotive Electric Modifications, Conversions and Testing
FN1826	Locomotive Electric Wreck & Accident
FN1827	Locomotive Warranty
FN1863	Locomotive Diesel Program Service
FN1864	Locomotive Diesel Bad Orders
FN1865	Locomotive Diesel Light Overhaul
FN1866	Locomotive Diesel Modifications, Conversions and Testing
FN1867	Locomotive Diesel Wreck & Accident
FN1820	Special Trains MoE
FN1829	Car Program Maintenance
FN1830	Car Bad Orders
FN1831	Car Modifications, Conversions, and Testing
FN1832	Car Light Overhaul
FN1833	Car Wreck & Accident
FN1834	Car Warranty
FN1836	Freeze Damage Repair
FN1839	Progressive Overhaul
FN1841	Car E-Clean and Fumigation
Use the Avoidable Cost Equations for MoE Support - #204	
FN1131	Training Amtrak
FN1182	Light Duty
FN1198	General Support - Special Projects
FN1234	SAP Payroll Adjustments
FN1801	MoE Managerial
FN1806	MoE Shop Facility
FN1807	MoE Shop Equipment
FN1808	MoE Supervisory Clerical & Office
FN1812	Mechanical Shop-Snow, Ice, & Exceptional Weather Exp
FN1814	M of E Overhead
FN1835	Component Rework
FN5000	Project Support–MoE
FN1844	Vehicle And Equipment Repairs
FN1851	Contract Roll Stock Management/Maintenance
FN1875	Environmental Activities

Function	Function Description
FN1876	Environmental Remediation Projects
FN1197	Reimbursable General Support
FN1997	MoE Reimbursable
FN2302	Recollectable MoE
FN1999	Conn DOT Commuter Agreement MoE
FN2011	New Jersey Transit
FN2036	Maryland DOT
FN2040	Virginia Rail Express
FN3000	Equipment–Remanufacture
FN3001	Equipment–Overhaul
FN3002	Equipment–Wreck Repairs
FN3003	Equipment New Acquisition
FN3004	Equipment--Other Modifications
FN3501	Road Land & Other WIP
FN4040	Commercial General Support
FN1631	Train Operations
FN1815	MoE-Vacation/Holiday/Nonproductive Labor
FN1816	MoE Material Control
FN1889	MoE Special Projects
FN1988	Passenger Common Train Riders
Fixed Costs	
FNXXXX	All Other Functions

8.2.6 High Speed Rail Maintenance Subfamily

Family: **MoE - #200**
Subfamily: **HSR Maintenance - #206**
Approach: **Avoidable**

Scope

The HSR Maintenance Subfamily performs all activities related to maintaining Amtrak's high speed rail (Acela) equipment, including rolling stock maintenance, turnaround servicing, management, and support activities. The Subfamily consists of six ResCens dedicated to servicing only equipment used on the Acela Express route. Additionally, Amtrak contracts with Alstom to manage material control for Acela trains, including the supply of overhaul packages, scheduled maintenance kits, other maintenance materials, and technical assistance.

Subfamily expenditures for FY07 were $64.1 million and account for 1.5 percent of Amtrak's total expenses.

Avoidable Cost Approach

If the Acela Express route were eliminated, in the long run, operations at ResCens responsible for maintaining Acela trainsets would also be eliminated and the facilities and equipment at those ResCens would be sold or otherwise disposed of. Thus, long-run costs for this Subfamily are 100 percent Avoidable. In the short run, most or all of the staff at these ResCens would likely be maintained to administer the decommissioning process and most ResCen costs would not be Avoidable.[44]

8.2.7 Backshop Subfamily

Family: **MoE - #200**
Subfamily: **Backshop - #207**
Approach: **Mixed-Detailed**

Scope

The ResCens in the Backshop Subfamily perform major repairs and capital overhauls, and produces and repairs components. They also perform some minor car and locomotive maintenance and servicing. The majority of expenditures in this Subfamily are Capital expenditures, followed by component-related and other maintenance work.

Subfamily expenditures for FY07 were $202.4 million (inclusive of transfer credits) and accounted for 4.9 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Backshop Subfamily is similar to the MoE-Multiple Subfamily in that it performs a wide range of MoE-related activities, including locomotive and car maintenance and support activities, in addition to major repairs and capital overhauls and component work. The Backshop Subfamily uses the same Avoidable Cost approach as the MoE-Multiple Subfamily above, which relies on the methodologies used in, and the Avoidable Cost equations developed for, the MoE-Turnaround, Locomotive Maintenance, Car Maintenance, and MoE-Support Subfamilies.

In the MoE-Multiple Subfamily, expenditures coded to certain Functions are allocated using the same rules used to allocate expenditures coded to the corresponding functions in other MoE Subfamilies. This approach ensures that similar types of expenditures are allocated in a consistent manner within the entire MoE Family. The Avoidable Cost approach for the

[44] This methodology does not estimate costs for the transition period between the first year and the long term However, it is notable that these ResCens would be a special case if such analysis were done. In the transition period between the short and long run, staff costs likely would be rapidly reduced, but staff reductions would be subject to labor protection provisions in Amtrak's collective bargaining agreements Nevertheless, because other equipment maintenance facilities servicing other routes exist in the same geographic locations, staff in the HSR Maintenance Subfamily ResCens is likely to be offered positions as they become available due to attrition, which would increase the transition period Avoidable Costs.

Backshop Subfamily utilizes a similar strategy. Estimating Avoidable Costs for the Backshop Subfamily is not possible using a single method because expenditures in this Subfamily are coded to many unrelated Functions. Furthermore, each ResCen may use multiple Functions. Therefore grouping ResCens together by Function into Subcategories within the Backshop Subfamily to conduct a separate statistical analysis is not possible.

To provide insight into the Avoidable Cost structure within the Backshop Subfamily, costs were grouped by Function and then by the MoE Subfamily in which the Function typically is utilized. Using this approach, costs in this Subfamily can be categorized as in Table 8-7.

Table 8-7: Expenditures in the Backshop Subfamily Related to other MoE Subfamilies

Related MoE Subfamily	FY07 Expenditure (millions)	Share of Backshop Subfamily
Capital, Reimbursable, or Commuter (Unallocated)	$149,962,674	74.1%
Support	$41,903,220	20.7%
Locomotive Maintenance	$5,495,062	2.7%
Car Maintenance	$3,623,068	1.8%
Miscellaneous	$1,289,223	0.6%
Turnaround Service	$81,812	0.0%

The main expenditures within this Subfamily are related to heavy repairs and overhauls, both of which are types of Capital work, and become part of Amtrak's capital assets. Thus, such expenditures are included in Capital Subfamily #701 and follow that Subfamily's allocation and Avoidable Cost methods. Removing these expenses leaves Support and Car and Locomotive Maintenance as the largest Subfamily costs.

Grouping Backshop Subfamily costs by Function allows Avoidable Cost statistical results from the other directly related MoE Subfamilies to be extrapolated to this Subfamily. For example, to estimate the avoidability of MoE-Support costs within the Backshop Subfamily, the Avoidable cost equation for Support Subfamily #204 is used. Because the relationship between MoE-Support costs and activity can be assumed to be the same between this Subfamily and the MoE-Support Subfamily, then the results from the statistical analysis of costs and activity in the MoE-Support Subfamily can be applied to estimate Avoidable Costs for MoE-Support Functions in the Backshop Subfamily.

The same approach is applied to each of the major Subfamily costs identified in the Backshop Subfamily. The matching statistical results used are as follows:

Table 8-8: Approach Used Within the MoE-Multiple Subfamily

Turnaround Service	Subfamily #201 Avoidable Cost Equation
Locomotive Maintenance	Subfamily #202/203 Avoidable Cost Equation
Car Maintenance	Subfamily #202/203 Avoidable Cost Equation
MoE Support	Subfamily #204 Avoidable Cost Equation

This approach allows the statistical analyses from closely related MoE Subfamilies to be used to estimate Avoidable Costs within the Backshop Subfamily. Through this approach, Avoidable Cost can be estimated for approximately 25 percent of all activity-related costs and 97 percent of non-Capital costs in the Backshop Subfamily.

Costs, which are associated with miscellaneous Functions that cannot be analyzed using the stated approach, are treated as Fixed within the Backshop Subfamily with respect to Amtrak Routes. Component work is not specifically tied to a type of service or equipment and supports the entire MoE Family and is, therefore, treated in the same manner as MoE-Support costs. Expenditures, associated with the Reimbursable business such as equipment repair expenditures for Commuter agencies, are not allocated to Amtrak trains and are automatically excluded from Avoidable Costs estimates. Capital expenditures within the Backshop Subfamily become part of Amtrak's capital assets and are included in the Capital Subfamily #701 and follow its allocation and Avoidable Cost method.

Summary

The Backshop Subfamily is composed of ResCens that perform several activities normally associated with different Subfamilies within the MoE Family. To calculate Avoidable costs for this Subfamily, functions within the Backshop Subfamily that are associated with another MoE Subfamily use that Subfamily's statistically estimated equation parameters. For example, functions associated with the Car Maintenance Subfamily use that Subfamily's equations. Thus, the various functions use another Subfamily's statistically estimated equation parameters, are classified as fixed, or are excluded from the analysis.

Table 8-9 summarizes the Avoidable Cost estimation approach for this Subfamily by Function.

Table 8-9: Grouping of Functions by Subfamily within Multiple #207

Function	Function Description
Use the Avoidable Cost Equation for MoE Turnaround - #201	
FN1828	Car Turnaround Service
Use the Avoidable Cost Equation for Locomotive Maintenance/Car Maintenance - #202/203	

Function	Function Description
FN1821	Locomotive Electric Turnaround Service
FN1822	Locomotive Electric Program Service
FN1823	Locomotive Electric Bad Orders
FN1824	Locomotive Electric Light Overhaul
FN1825	Locomotive Electric Modifications, Conversions, and Testing
FN1826	Locomotive Electric Wreck & Accident
FN1827	Locomotive Warranty
FN1862	Locomotive Diesel Turnaround Service
FN1863	Locomotive Diesel Program Service
FN1864	Locomotive Diesel Bad Orders
FN1865	Locomotive Diesel Light Overhaul
FN1866	Locomotive Diesel Modifications, Conversions, and Testing
FN1867	Locomotive Diesel Wreck & Accident
FN1829	Car Program Maintenance
FN1830	Car Bad Orders
FN1831	Car Modifications, Conversions, and Testing
FN1832	Car Light Overhaul
FN1833	Car Wreck & Accident
FN1834	Car Warranty
FN1836	Freeze Damage Repair
Use the Avoidable Cost Equation for MoE Support - #204	
FN1131	Training Amtrak
FN1182	Light Duty
FN1234	SAP Payroll Adjustments
FN1801	MoE Managerial
FN1806	MoE Shop Facility
FN1807	MoE Shop Equipment
FN1808	MoE Supervisory, Clerical & Office
FN1810	Component WIP Inventory
FN1811	Component WIP Inventory (Balance Sheet)
FN1812	Mechanical Shop-Snow, Ice, & Exceptional Weather Exposure
FN1814	MoE Shop Overhead
FN1815	MoE-Vacation/Holiday/Nonproductive Labor
FN1816	MoE Material Control
FN1835	Component Rework
FN1844	Vehicle And Equipment Repairs
FN1875	Environmental Activities
FN1889	MoE Special Projects

Function	Function Description
FN5000	Project Support–MoE (Operation costs that support capital projects but not considered as capital expenses)
FN6831	Transfers–MoE
Fixed Costs	
FNxxxx	All other Functions
Capital and Direct Functions Excluded from Avoidable Cost Analysis	
FN1997	MoE Reimbursable
FN2036	Maryland DOT
FN2302	Recollectable MoE
FN3000	Equipment–Remanufacture
FN3001	Equipment–Overhaul
FN3002	Equip-Wreck Repairs
FN3004	Equip-Other Modifications
FN3021	Amtrak NJT Joint Benefit Capital Program
FN3071	Keystone Corridor Improvement Program
FN3075	LIRR Life Safety Capital
FN3077	SEPTA Joint Benefit Capital
FN3501	Road Land & Other WIP

8.3 Transportation Operations (OPS) Family

8.3.1 Onboard Service Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **OBS - #301**
Approach: **Depends on Subcategory (see below)**

Scope

The ResCens in the OBS Subfamily provide food, beverage, and other passenger services on board Amtrak trains in addition to operating the commissaries that stock the trains with supplies. The OBS Subfamily consists of four subcategories of ResCens, established to differentiate and track separate activities and costs.

Subfamily expenditures for FY07 were $231.4 million and account for 5.6 percent of Amtrak's total expenses.

Avoidable Cost Approach

Varying missions and activities within this Subfamily prevent the implementation of a single Avoidable Cost approach, and instead Avoidable Costs for each Subcategory are identified and calculated differently.

301_1-Crew: This Subcategory consists of ResCens that incur the direct and indirect costs of the train crewmembers that provide customer service as well as their immediate supervisors. Costs in this Subcategory totaled $136.5 million in FY07. OBS crew labor costs are directly assigned to trains and are Avoidable if a Route is eliminated. However, under collective bargaining agreements, OBS crews are financially protected in the event of certain service reductions or eliminations, making the final Avoidable Costs less than they would be without these labor protections.

A brief description of the approach used for estimating Avoidable Costs for the OBS Crew Subcategory follows. Two Avoidable Cost percentages are calculated, one for OBS wages and one for OBS fringe benefits, for each crew base and Route combination by using data including years of service and wage rates for OBS crew members at each crew base. These Avoidable Cost percentages represent the share of total costs coded to the relevant Functions at a ResCen that are avoided if a specific route is eliminated. Because an individual crew base may contain multiple ResCens, an Avoidable Cost percentage for a crew base applies to all corresponding ResCens at that crew base. Just as in other Subfamilies, Avoidable Cost percentages were calculated for both the short term and the long term.

Avoidable Costs for a particular Route at a particular ResCen are calculated as follows:

1. Wage Avoidable Costs for that Route are calculated by multiplying wage Avoidable Cost percentages by wage Function Fully Allocated Costs.
2. Fringe benefit Avoidable Costs for that Route are calculated by multiplying fringe benefit Avoidable Cost percentages by fringe benefit Function Fully Allocated Costs.
3. Costs coded to Accounts for crew meals and layovers are treated as 100 percent avoidable because they would cease to be incurred if a Route is eliminated.
4. Costs coded to some Functions are treated as fixed where a crew base serves multiple routes, but 100 percent avoidable in the long run if a crew base serves a single route.
5. Avoidable Costs for a Route at the ResCen are then the sum of avoidable wages, avoidable fringe benefits, and other 100 percent Avoidable Costs

Total Avoidable Costs for the Route are calculated by summing Avoidable Costs for that Route at each ResCen serving the Route.

For a more complete discussion of Amtrak labor protection provisions and the Avoidable Cost method for this Subcategory as well as an example, see Section 6.4. Adjusting for Labor Protection Provisions.

301_2-Supplies: This Subcategory consists of the costs of food, beverage, linen, nonconsumables, and other supplies used by passengers or crews on board Amtrak trains. Costs in this Subcategory totaled $52.3 million in FY07. These supply costs are directly assigned to

trains and are fully avoidable if a train is eliminated. Further, each Route has a dedicated Supplies ResCen in the OBS Supplies Subcategory. If a Route is eliminated, costs at this Supplies ResCen are 100 percent avoidable, whereas costs at the rest of the ResCens in the Subcategory are fixed.

301_3-Commissary Management & Support: This Subcategory consists of the outsourced commissary costs paid to Gate Gourmet, Inc. for the operation of Amtrak's 11 commissaries, as well as Amtrak's internal commissary and contract management costs. Costs in this Subcategory totaled $32.9 million in FY07. A reduction or elimination in service would result in a corresponding reduction in contract fees paid. This reduction would be immediate because any reduction or elimination in service would be a planned action and outsourced commissary costs are 100 percent avoidable in both the short and long run. Amtrak's internal commissary and contract management costs are fixed relative to the elimination of a single Amtrak route.

301_4-Support: This Subcategory consists of ResCens that incur costs for management support of OBS labor. These costs include the costs to operate the crew assignment system, crew dispatching and other systemwide OBS management costs. Costs in this Subcategory totaled $9.2 million in FY07. Although it is reasonable that OBS management support costs might decline if a single Amtrak Route were eliminated, no significant relationship could be established between levels of train activity and OBS-Support ResCen costs through statistical analysis; hence, the hypothesis that costs within the Support Subcategory are partially Avoidable could not be proven. This lack of a statistically significant relationship, along with the support nature of the Subcategory, support treating OBS Support costs as fixed.

Summary

The OBS Subfamily is broken down into four Subcategories, which are treated separately with regard to the calculation of Avoidable Costs. Cost in Crew Subcategory 301_1, are Avoidable subject to labor protection provisions. Costs in Supplies Subcategory 301_2 are Avoidable. Depending on the Account number, some costs in Commissary Management & Support Subcategory 301_3 are Avoidable while others are fixed. Finally, Costs in Support Subcategory 301_4 are fixed because OBS management support will continue to be necessary to facilitate the entire OBS Subfamily if any single Amtrak route is eliminated.

8.3.2 Trainmen and Enginemen (T&E) Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **T&E - # 302**
Approach: **Depends on Subcategory (see below)**

Scope

The T&E Subfamily consists of the direct and indirect labor costs incurred to operate passenger trains. Enginemen are the engineers who operate locomotives, while trainmen are the conductors in overall control of trains. Together T&E are referred to as the road crew. Amtrak T&E crews work on both Amtrak trains and commuter trains operated by Amtrak. Only costs related to

operating Amtrak trains are potentially Avoidable. The T&E Subfamily consists of two Subcategories of ResCens. These Subcategories were established to differentiate and track separate T&E activities and costs.

Subfamily expenditures for FY07 were $272.3 million and account for 6.6 percent of Amtrak's total expenses.

Avoidable Cost Approach

Varying missions and activities within this Subfamily prevent the implementation of a single avoidable cost approach, and therefore Avoidable Costs for each of the two Subcategories are identified and calculated differently.

302_1-Crew: This Subcategory consists of ResCens that incur the direct and indirect costs of the train road crews and their immediate supervisors. Costs in this Subcategory totaled $260.3 million in FY07. T&E crew labor costs are directly assigned to trains and are Avoidable if a Route is eliminated. However, under collective bargaining agreements, T&E crews are financially protected in the event of certain service reductions or eliminations, making the final Avoidable Costs less than they would be without these labor protections.

The following is a brief description of the approach used for estimating Avoidable Costs for the T&E Crew Subcategory. Two Avoidable Cost percentages are calculated, one for T&E wages and one T&E fringe benefits, for each crew base and Route combination by using data including years of service and wage rates for OBS crew members at each crew base. These Avoidable Cost percentages represent the share of total costs coded to a Function at a ResCen that are avoided if a specific route is eliminated. Because an individual crew base may contain multiple ResCens, an Avoidable Cost percentage for a crew base applies to all corresponding ResCens at that crew base. Just as in other Subfamilies, Avoidable Cost percentages were calculated for both the short term and the long term.

Avoidable Costs for a particular Route at a particular ResCen are calculated as follows:

1. Wage Avoidable Costs for that Route are calculated by multiplying wage Avoidable Cost percentages by wage Function Fully Allocated Costs.
2. Fringe benefit Avoidable Costs for that Route are calculated by multiplying fringe benefit Avoidable Cost percentages by fringe benefit Function Fully Allocated Costs.
3. Costs coded to Accounts for crew meals and layovers are treated as 100 percent avoidable because they would cease to be incurred if a Route is eliminated.
4. Costs coded to some Functions are treated as fixed where a crew base serves multiple routes, but 100 percent avoidable in the long run if a crew base serves a single route.
5. Avoidable Costs for a Route at the ResCen are then the sum of avoidable wages, avoidable fringe benefits, and other 100 percent Avoidable Costs

Total Avoidable Costs for the Route are calculated by summing Avoidable Costs for that Route at each ResCen serving the Route.

For a more complete discussion of Amtrak labor protection provisions and the Avoidable Cost method for this Subcategory as well as an example, see Section 6.4, Adjusting for Labor Protection Provisions.

302_2-Support: This Subcategory consists of ResCens that incur costs for management support of T&E labor. Costs incurred at these costs include the costs to operate the crew assignment system, crew dispatching and other systemwide T&E management costs. Costs in this Subcategory totaled $12.0 million. Although it is reasonable that T&E management support costs might decline if a single Amtrak Route were eliminated, no significant relationship could be established between levels of train activity and T&E-Support ResCen costs through statistical analysis; hence the hypothesis that costs within the T&E Support Subcategory are partially Avoidable could not be proven. This lack of a statistically significant relationship along with the support nature of the Subcategory support treating T&E Support costs as fixed.

Summary

The T&E Subfamily is broken down into two Subcategories, which are treated separately with regard to the calculation of Avoidable Costs. Costs in Crew Subcategory 302_1 are Avoidable subject to labor protection provisions. Costs in Support Subcategory 302_2 are fixed because T&E management support continues to be necessary to facilitate the entire T&E Subfamily if any single Amtrak route is eliminated.

8.3.3 Yard Subfamily

Family: **Ops- Transportation - #300**
Subfamily: **Yard - #303**
Approach: **Mixed-Statistical**

Scope

The Yard Subfamily performs activities that support the movement of train equipment in preparation for revenue service, including the movement of trains between the yard and station, the makeup and breakup of trains, the movement of equipment to and from mechanical facilities, and managerial activities related to scheduling the equipment moves and overseeing yard operations. The Yard Subfamily consists of four Subcategories, each composed of groups of ResCens with similar missions and activities.

Subfamily expenditures for FY07 were $55.9 M and account for 1.3 percent of Amtrak's total expenses.

Regression Data

Cost and activity data were available for this Subfamily for the period from 2005 through 2007. No cost data were available for ResCen 6099; therefore, this ResCen was not included in the analysis. In the case of ResCen 5175, data were only available for 2005. ResCen 7113 and ResCen 7120 were removed from the dataset because they pertain exclusively to commuter rail

operations. In addition, Philadelphia ResCens 5216 and 5220 were excluded from the analysis because, while numerous trains pass through the Philadelphia yard, no costs are actually incurred related to these trains because no activity is required to support these pass-through movements. Costs are only related to trains that begin or end at this point. However the activity data are for both types of trains and the cost and activity data are not reported on a consistent basis.

In the case of certain yards, yard activities are spread among multiple yard ResCens. however, the activity data available for use in the statistical analysis were totals across the entire yards. To make the activity data consistent with the cost data for individual ResCens, regions were created by combining cost data from multiple ResCens. The following ResCens were combined to form regional data:

New York, NY:	RC5375, RC5406
Albany, NY:	RC5377, RC5426, RC5427
Boston, MA:	RC5575, RC5616
Washington, DC:	RC5806, RC5819
Chicago, IL:	RC6206, RC6209, RC6151
Los Angeles, CA:	RC6591, RC6706
Portland, OR:	RC6593, RC6604

Activity statistics were selected for testing on the basis of whether they measured activities that would logically affect costs at the ResCens in this Subfamily.

Statistical Model and Results

A preliminary examination of scatter plots of cost against activity suggested that a linear form equation best captures the relationship between these variables. Linear, log-log and log-linear specifications all were tested to identify the best statistical relationship between costs and activity. For this Subfamily, the linear form equation provided the best explanation of changes in costs relative to activity. As a result, the analysis focused on identifying the best linear equations for the short and long run. The best model was selected through examining regression statistics and using professional judgment regarding which types of train activities would logically drive ResCen costs for this Subfamily. The best specification was found when using a linear model and FTT as the activity statistic.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * FTT
Observations	46
R-square	0.782

The short-run (fixed–effects) model results are provided in the following table.

	Coefficient	**Significance Level**

Constant	2,685.018	99%
FTT	80	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	-1,111.238	81%
FTT	472	99%

The statistical results show that yard costs rise linearly with increases in train activity as measured by FTT. The model does not indicate that any economies of scale exist for the Yard Subfamily. Yard costs change more dramatically in the long run compared to the short run, indicating that there are some costs that can be avoided in the long run, but not the short run due to a similar change in activity levels.

These regression equations are used to generate predicted ResCen costs before and after a route is eliminated. Avoidable Costs are calculated by applying the percentage change in predicted cost to actual ResCen costs.

8.3.4 Fuel Subfamily

Family: **Ops-Transportation-#300**
Subfamily: **Fuel-#304**
Approach: **Avoidable**

Scope

The Fuel Subfamily consists of ResCens that incur costs for diesel fuel used to power both Amtrak trains used in passenger service and also certain commuter trains. Costs incurred in this Subfamily are the costs of just fuel. No labor or other costs are recorded in the Subfamily.

Subfamily expenditures for FY07 were $121.2 million and account for 2.9 percent of Amtrak's total expenses.

Avoidable Cost Approach

Costs in the Fuel Subfamily are fully avoidable. If a Route is eliminated, it will immediately cease to consume fuel and to incur fuel expenses.

8.3.5 Transportation–Multiple Subfamily

Family: **Ops-Transportation-#300**
Subfamily: **Transportation-Multiple-#305**
Approach: **Mixed-Detailed**

Scope

The Transportation-Multiple Subfamily represents those ResCens within the Ops-Transportation family that do not perform one primary activity, but rather perform multiple transportation-related activities using various Functions that are typically used in other Subfamilies within the Ops-Transportation family such as the T&E, OBS, Transportation Support, Station Operations, and Yard Subfamilies.

Subfamily expenditures for FY07 were $35.0 million and account for 0.8 percent of Amtrak's total expenses.

Transportation-Multiple Avoidable Cost Approach

The Fully Allocated Cost methodology for the Transportation-Multiple Subfamily relies upon the allocation methodologies used in the T&E, OBS, Transportation Support, Station Operations, and Yard Subfamilies. Expenses coded to certain Functions in the Transportation-Multiple Subfamily are allocated with the same rules used to allocate costs coded to the same Functions in other Ops-Transportation Subfamilies. This approach ensures that similar types of expenditures are allocated in a consistent manner within the entire Ops-Transportation Family.

The Avoidable Cost approach for the Transportation-Multiple Subfamily utilizes a similar strategy. Estimating Avoidable Costs for the Transportation-Multiple Subfamily at the aggregate level is not possible because costs in this Subfamily are coded to many unrelated Functions. Furthermore, each ResCen may use multiple types of Functions, and therefore, it is not possible to group ResCens together by Function into Subcategories within the Transportation-Multiple Subfamily to conduct a separate statistical analysis.

To provide insight into the avoidable cost structure within the Transportation-Multiple Subfamily, costs were grouped by Function and then by the Transportation Subfamily in which the Function typically it utilized. Using this approach, costs in this Subfamily can be categorized as in Table 8-10.

Table 8-10: Expenditures in the Transportation-Multiple Subfamily Related to other Transportation Subcategories

Related Subcategory	Subcategory #	FY07 Cost (Millions)	Share of Transportation-Multiple Subfamily
T&E-Crews	302_1	$15,764,963	45.0%
Transportation Support	308_0	$6,585,634	18.8%

Related Subcategory	Subcategory #	FY07 Cost (Millions)	Share of Transportation-Multiple Subfamily
OBS-Support	301_4	$4,404,783	12.6%
Yard-Train and Equipment Moves	303_4	$3,454,443	9.9%
Fuel	304_0	$3,178,807	9.1%
Stations-Shared	502_0	$1,635,690	4.7%

The main costs within this Subfamily are related to T&E Crews, Transportation Support and OBS Support activities. Together these activities account for more than 75 percent of all costs within the Transportation-Multiple Subfamily. Locomotive maintenance accounts for a much smaller portion, as do costs direct to specific non-NTS customers.

Grouping Transportation-Multiple Subfamily costs by Function allows Avoidable Cost statistical results from the other directly related Subfamilies to be extrapolated to this Subfamily. For example, to estimate the avoidability of Yard costs within the Transportation-Multiple Subfamily, the avoidable cost equation for Yard Subfamily #303 is used. Because the relationship between Yard costs and activity can be assumed to be the same between this Subfamily and the Yard Subfamily, the results from the statistical analysis of costs and activity in the Yard Subfamily can be applied to estimate Avoidable Costs for Yard Functions in the Transportation-Multiple Subfamily.

The same approach is applied to each of the major Subfamily groupings identified in the Transportation-Multiple Subfamily, including those for which avoidable costs have not been estimated statistically, such as T&E and Fuel. Fuel costs are fully avoidable and T&E costs are avoidable subject to labor protection provisions. Whether based on statistical analysis or professional judgment, the method for estimating the avoidability of costs coded to each Function will follow a consistent approach. The avoidable cost approaches used for various Subfamily groupings are in Table 8-11.

Table 8-11: Approach Used in the Transportation-Multiple Subfamily

Related Subcategory/Subfamily	Subcategory #	Approach Used
T&E-Crews	302_1	Avoidable Subject to Labor Protection
Transportation Support	308_0	Subcategory #308 Avoidable Cost Equation
OBS-Support	301_4	Subcategory #301_4 Avoidable Cost Equation
Yard-Train and Equipment Moves	303_4	Subcategory #303_4 Avoidable Cost Equation
Fuel	304_0	Avoidable
Stations-Shared	502_0	Subcategory #502_0 Avoidable Cost Equation

This approach allows the statistical analysis from closely related Transportation Subcategories and Subfamilies to be used to estimate avoidable costs within the Transportation-Multiple Subfamily as well as using the results from Subfamilies whose Avoidable Costs were not

statistically estimated. Costs associated with miscellaneous Functions that cannot be analyzed using the above approach are treated as Fixed within the Transportation-Multiple Subfamily. Expenditures at ResCens dedicated to a commuter agency and all other costs associated with commuter agencies are not allocated to Amtrak routes and are excluded from Avoidable Cost estimates.

Summary

The Transportation-Multiple Subfamily is composed of ResCens that perform several activities normally associated with a single Subfamily within the Ops-Transportation Family. To calculate avoidable costs for this Subfamily, Functions within the Transportation-Multiple Subfamily are associated with another Subcategory and either (1) use that Subfamily's statistically estimated equation parameters or (2) use that Subfamily's assigned avoidable cost category. For example, functions associated with the Yard Subfamily will use that Subfamily's avoidable cost equations.

Table 8-12 summarizes the Avoidable Cost estimation approach for the Transportation-Multiple Subfamily by Function and Account.

Table 8-12: Grouping of Functions and Accounts by Subcategory within Transportation-Multiple - #305

Function	Function Description
Use the Avoidable Cost Equation for OBS-Support - #301_4	
FN1301	OBS Management & Supervision.
Use the Approach for T&E-Crew - #302_1	
FN1615	Extra Board Guarantee-Engine Crew Operations
FN1616	Extra Board Guarantee-Trainmen
FN1617	T&E Overhead
FN1633	Passenger Train Enginemen
FN1635	Passenger Train Trainmen
FN1642	Qualifying Enginemen
FN1643	Qualifying Trainmen
Use the Avoidable Cost Equations for Yard-Train and Equipment Moves - #303_4	
FN1622	Yard Engine Crew Operations
FN1623	Yard Trainmen Operations
All Fuel Accounts Are Avoidable	
510411	All Functions with fuel Accounts
Use the Avoidable Cost Equations for Transportation Support - #308	
FN1002	Division Administrative
FN1131	Training Amtrak

Function	Function Description
FN1601	Transportation Management & Supervisors
FN1689	Train Operations-Special Projects
FN1122	Divisional Service Centers
FN1123	Product Line Management & Support
FN1125	Special Trains Miscellaneous
FN1234	SAP Payroll Adjustments
FNxxxx	All Other Functions
Use the Avoidable Cost Equations for Stations-Shared - #502	
FN1231	Station Services-Ticketing
FN1241	Station Services-Management & Supervisors
FN1271	Station Services-Station Operations
FN1281	Station Services-Building Maintenance
FN1288	Station Services-Special Projects
FN1291	Passenger Inconvenience

8.3.6 Train Movement Subfamily

Family: **Ops-Transportation - #300**
Subfamily: **Train Movement - #306**
Approach: **Mixed-Statistical**

Scope

The Train Movement Subfamily performs activities associated with managing the movement of moving passengers from endpoint to endpoint, including the management of train dispatching, signal or interlocking operations, and connecting bus service. The Subfamily includes the CETC offices, CNOC, block operators at various locations, and staff responsible for setting and enforcing operating rules and standards.

Subfamily expenditures for FY07 were $69.2 million and account for 1.7 percent of Amtrak's total expenses.

Regression Data

Cost and activity data were generally available for this Subfamily for the period from 2005 through 2007. Data for a number of ResCens in this Subfamily, however, were found to be flawed and otherwise unsatisfactory. For example, no costs or activity data was available for RC6000, Tri-Rail Dispatching, while for RC5151—Blocks and Towers-N PHL—the data consisted entirely of zeros and negative values. ResCens with no data or with either zero or negative costs or activity levels were removed from the regression dataset before analysis.

Activity statistics were selected for testing based on whether they measured activities that would logically affect costs at the ResCens in this Subfamily.

Statistical Model and Results

A preliminary examination of scatter plots of cost against activity suggested that a linear equation form best captures the relationship between these variables. Linear, log-log, and log-linear specifications all were tested to identify the best statistical relationship between costs and activity. For this Subfamily, the linear form equation was better able to explain the changes in cost as a result of changes in activity. As a result, final analysis focused on identifying the best short- and long-term linear equations. The best model was selected through examining regression statistics and using professional judgment regarding which types of activities would logically drive ResCen costs for this Subfamily. The best specification was found when using a linear model and TUT as the activity statistic.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * TUT
Observations	75
R-square	0.617

The short-run (fixed-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	787.236	99%
TUT	3.66	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	-91,551	20%
TUT	8.38	99%

These results indicate that a linear relationship exists between costs within the Train Movement Subfamily and TUT and suggests the lack of any economies of scale for this Subfamily. The larger coefficient for TUT in the long-run equation, versus the short-run equation, provides evidence that the potential for costs savings is higher in the long run.

These regression equations are used to generate predicted ResCen cost before and after a route is eliminated. Avoidable Costs are calculated by applying the percentage change in predicted costs to actual ResCen costs.

8.3.7 Train Movement–Host RR Subfamily

Family: **Ops - Transportation - #300**
Subfamily: **Train Movement-Host RR - #307**
Approach: **Mixed-Statistical**

Scope

The Train Movement Host RR Subfamily captures costs incurred by Amtrak for goods and services provided by the freight railroads, including infrastructure access, leasing locomotives, purchased fuel, repairs to Amtrak rolling stock, dispatching and signal services, and station costs. Also included are incentive payments to host railroads for schedule adherence.

Subfamily expenditures for FY07 were $91.9 million and account for 2.2 percent of Amtrak's total expenses.

Regression Data

Cost and activity data for this Subfamily were available for the period from 2005 through 2007. ResCens that had missing values for either cost or activity were eliminated from the regression dataset. Among those ResCens eliminated were RC0816 and RC7965. Activity statistics were selected for testing based on whether they measured activities that would logically affect costs at the ResCens in this Subfamily.

Statistical Model and Results

A review of scatter plot of cost against activity suggested that a linear equation best captures the relationship between these variables. Other functional forms were also tested, including log-log and log-linear. For this Subfamily, the linear form equation was better able to explain changes in cost as a result of changes in activity. As a result, final analysis focused on identifying the best short and long term linear equations. The best model was selected through examining regression statistics and using professional judgment as to which types of activities would logically drive ResCen costs for this Subfamily. Statistical tests provided guidance on which specification captured most of the variation in costs relative to a particular activity. The best fit was found when using FTT as the activity statistic.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * FTT
Observations	66
R-square	0.254

The short-run (fixed-effects) model results are provided in the following table.

	Coefficient	Significance Level
Constant	1,006,152	99%
FTT	407	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	Significance Level
Constant	-207,923	8%
FTT	609	97%

These results indicate the existence of a linear relationship between costs and FTT within the Host Railroad Subfamily and suggest the lack of any economies of scale for this Subfamily. The larger coefficient for FTT in the long-run equation as compared to the short-run equation provides evidence that the potential for costs savings is higher in the long run.

These regression equations are used to generate predicted ResCen cost before and after a route is eliminated. Avoidable Costs are calculated by applying the percentage change in predicted costs to actual ResCen costs.

8.3.8 Transportation Support Subfamily

Family: **Ops-Transportation - #300**
Subfamily: **Transportation Support - #308**
Approach: **Mixed-Statistical**

Scope

The Transportation Support Subfamily performs supervision and support for the operation of passenger train service. The Subfamily includes the costs of general and assistant superintendents, railroad and assistant foremen, and other transportation-related activities. ResCens in the Transportation Support Subfamily support other Ops-Transportation ResCens that directly perform transportation services.

Subfamily expenditures for FY07 were $80.7 million and account for 1.9 percent of Amtrak's total expenses.

Regression Data

Cost and associated activity data for this Subfamily were available for the 3-year period running from 2005 through 2007. Data for a number of ResCens were found to be flawed and/or otherwise inappropriate or unsatisfactory. ResCens supporting Commuters with costs, but no Amtrak route activity were removed from the analysis. In addition, data associated with non-variable activities, such as management activities, were also eliminated from the analysis dataset. ResCens with no data or with either zero or negative costs or activity levels were removed from the regression dataset prior to analysis. Two ResCens with negative costs were eliminated from the dataset. To create a balanced dataset when using three years worth of data, ResCens with zero costs in one year were removed across all years. Activity statistics were selected for testing based on whether they measured activities that would logically affect costs at the ResCens in this Subfamily.

Statistical Model and Results

A preliminary examination of scatter plots of cost against activity suggested that a log form equation best captures the relationship between these variables. Along with a log-log form equation, other functional forms, such as linear and log-linear, were also tested. In the end, a log-log equation was better able to explain the changes in cost as a result of changes in activity in this Subfamily. As a result, final analysis focused on identifying the best short and long term log-log form equations.

The best model was selected through examining regression statistics and using professional judgment as to which types of train activities would logically drive costs at ResCen in this Subfamily. Statistical tests provided guidance on which model specification best explained the variation in costs relative to a particular activity. The best fit was found when using the activity statistic TCM (Total Car Miles) as the explanatory variable.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Ln(Cost) – Constant + B * ln(TCM)
Observations	207
R-square	0.2859

The short-run (fixed-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	5.64	94%
TCM	0.40	98%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	Significance Level
Constant	1.79	64%
TCM	0.63	99%

These results demonstrate the existence of a positive relationship between Transportation Support costs and TCM. The equation is specified in log-log form, which shows there are economies of scale for this Family. The larger coefficient for TCM in the long-run equation versus the short-run equation indicates that more costs savings can be made in the long run relative to the short run.

These regression equations are used to generate predicted ResCen costs before and after a route is eliminated. Avoidable Costs are calculated by applying the percentage change in predicted costs to actual ResCen costs.

8.3.9 Power- Electric Traction Subfamily

Family: **Ops-Transportation-#300**
Subfamily: **Power-Electric Traction-#309**
Approach: **Avoidable**

Scope

The Power-Electric Traction Subfamily consists of three ResCens that incur costs to power electrified train service on the NEC and the Keystone route. Amtrak purchases power from 10 power vendors as well as from commuter agency Metro North. Costs incurred in this Subfamily are the costs of electric power only: no labor or other costs are recorded in the Subfamily.

Subfamily expenditures for FY07 were $100.2 million and account for 2.4 percent of Amtrak's total expenses.

Avoidable Cost Approach

Costs in the Power-Electric Traction Subfamily are fully avoidable. If a Route is eliminated, it will immediately cease to consume electric power and to incur further electric power expenses.

8.4 Sales and Marketing

8.4.1 Sales Subfamily

Family: **Sales & Marketing - #400**
Subfamily: **Sales-#401**
Approach: **Mixed-Detailed**

Scope

The Sales Subfamily is responsible for such activities as field sales and sales administration, travel agent services, and commercial account services and includes expenditures for travel agency commissions, credit card commissions, and airline system access fees.

Subfamily expenditures for FY07 were $23.9 million and account for 0.6 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Sales Subfamily is classified as having Mixed Avoidable Costs and will utilize a Mixed-Detailed approach. In many industries, sales and related activities are considered part of G&A, implying that sales systems and staff levels would remain constant even if a single Route were eliminated. After conducting a statistical analysis that was unable to isolate a significant relationship between levels of train activity and Sales ResCen costs, the hypothesis that costs within the Sales Subfamily are avoidable is rejected, at least for the case in which costs are aggregated to the ResCen level. The presumption is that most costs in this Subfamily should be treated as fixed.

However, some specific costs in the Sales Subfamily can be tracked and eliminated as completely avoidable. Using Account data contained in the expense records, the costs of travel agent commissions and their reservation system access fees are entirely avoidable. If a Route is eliminated, no tickets are sold and no commission is paid. The accounts to track these costs, $8.0 million (33.7 percent of FY07 cost) are completely avoidable while the remaining costs are considered fixed. The accounts are:

553241 Commissions-Travel Agents ($2.7 million),
553245 System Access Fees-Airlines ($4.4 million), and
553246 Interline Commission Expense ($0.9 million).

Although $8.0 million in costs occur for these Accounts, avoidable costs are calculated at the Route level and only a portion of these total costs will be avoidable for any single route.

Summary

The costs in the Sales and Marketing Subfamily are Fixed except those costs paid to travel agents and associated fees. These costs, captured by unique Accounts in the expense records, are completely avoidable in both the short and long run.

8.4.2 Information & Reservations Subfamily

Family: **Sales & Marketing - #400**
Subfamily: **Information & Reservations - #402**
Approach: **Mixed-Detailed**

Scope

The Information & Reservations Subfamily provides reservation services to both the general public as well as interacting with outside travel agency reservations and information service systems. The Subfamily captures the costs of RSCC as well as the costs of the operating information systems required for Amtrak reservation services.

Subfamily expenditures for FY07 were $83.6 million and account for 2.0 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Information & Reservation Subfamily is classified as having Mixed Avoidable Costs and will utilize a Mixed-Detailed approach. In many industries, sales and related activities are considered part of G&A, implying that sales systems and staff levels would remain constant even if a single Route were eliminated. After conducting a statistical analysis that was unable to isolate a significant relationship between levels of train or passenger activity and sales costs, the hypothesis that costs within the Information & Reservations Subfamily are avoidable is rejected, at least for the case in which costs are aggregated to the ResCen level. The presumption is that most costs in this Subfamily should be treated as fixed.

Although no significant statistical relationship between train or passenger activity and Information & Reservations ResCen cost was found, some costs are considered long-term avoidable. Presumably, RSCCs are currently managed and staffed efficiently, and that given a reduction in call volume resulting from the elimination of a Route, over time, staffing levels would be reduced by the staffing cost allocated to that Route. In the short run, staffing levels would not adjust and RSCC customer service phone agents would each handle fewer calls. However, the wages paid to agents, allocated by RSO to Routes, is considered long-run avoidable for an individual Route.

These costs are isolated in APT using Function 1221 Reservations in combination with several wage accounts:

500010 Wages ($16.8 million),
500013 Other Wages ($1.3 million),
500014 Overtime Wages ($1.7 million),
500018 Part-time Wages ($3.0 million),
500019 Part-time Overtime Wages ($0.2 million), and
500020 Other Part-time Wages ($0.2 million).

Although $23.3 million in costs occur for these functions, avoidable costs are calculated at the Route level and only a portion of these total costs will be avoidable for any single route.

Summary

The costs in the Information and Reservations Subfamily are fixed except for the wages paid to RSCC customer service phone agents. These costs, captured by unique Accounts in the expense

records, are long-term avoidable as staffing levels at the RSCCs would be reduced by the costs allocated to the eliminated Route.

8.4.3 Marketing Subfamily

Family: **Sales & Marketing - #400**
Subfamily: **Marketing - #403**
Approach: **Mixed-Detailed**

Scope

The Marketing Subfamily performs marketing and sales support activities for Amtrak's core passenger rail business. Activities include market research, customer relations, general advertising, telephone directory advertising, production of timetables, and sales promotions. Some marketing efforts are focused on specific Amtrak routes.

Subfamily expenditures for FY07 were $57.5 million and account for 1.8 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Marketing Subfamily is classified as having Mixed Avoidable Costs and will utilize both a Mixed-Detailed approach for some short-run accounts as well as a Mixed-Statistical approach for long-run avoidable costs. Conducting a statistical analysis for the Subfamily yielded mixed results. The analysis was unable to isolate a significant relationship between levels of train activity and Marketing ResCen costs for the short-run, rejecting the hypothesis that these costs are avoidable. However, using the between-effects model did isolate a significant relationship between levels of train activity and long-run Marketing ResCen costs. The statistical results of unavoidable short-run costs are confirmed intuitively as in many industries, marketing, sales, and related activities are considered part of G&A, implying that staff levels would remain constant even if a single Route were eliminated. This assumption, while strong in the short term, could be relaxed over time as staff levels may be able to readjust and fixed costs can be lowered.

However, some specific short-run costs in the Marketing Subfamily can be tracked and eliminated as completely avoidable. Using Account data contained in the expense records, the costs of advertising billed by an outside advertising agency would be avoidable immediately. If a Route is eliminated, no further costs are incurred advertising on its behalf. Even though the total for the account, 553201 Advertising, is large relative to the entire family at $42.8 million, avoidable costs are calculated at the Route level and only a portion of these total costs will be avoidable for any single route.

Additionally, some ResCens within the Marketing Subfamily are dedicated to individual Amtrak Routes and don't share costs among routes. In the short run, these ResCens would follow an approach consistent with the rest of the Subfamily: mostly fixed costs with Account 553201 Advertising being fully avoidable. In the long run, however, these ResCens are fully avoidable five years after their only route was eliminated. The other ResCens in the Subfamily will utilize the statistically estimated long-run equation to calculate avoidable costs.

Regression Data

The ResCens 1011, 1012, 1013, 1075, 1134, and 1141 were excluded from the analysis because they are responsible for higher level planning and coordination of marketing.

Statistical Model and Results

Linear, log-log, and linear-log functional forms were tested for the Marketing Subfamily. The log-log relationship was found to have the best statistical fit for this Family.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Ln(Cost) – Constant – B * ln(TUT)
Observations	36
R-Square	0..40

The long-run (between-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	8.05	98%
TUT	0.49	99%

Long-run marketing costs rise at a decreasing rate with increases in passenger activity. This indicates that the Marketing Subfamily exhibits economies of scale in the long run.

Calculation Method

In the short run, the Advertising Account 553201 will be treated as 100 percent avoidable as signified by Avoidable Cost Code "A." All other short-run costs in this Subfamily will be 100 percent fixed as signified by Avoidable Cost Code "F."

In the long run, those ResCens that are focused on a single route will be considered 100 percent avoidable as signified by Avoidable Cost Code "A." The remaining ResCens will utilize the statistically estimated between effects equation to calculate long-run avoidable costs as signified by Avoidable Cost Code "M."

Summary

The Marketing Subfamily will use a Mixed approach for both short- and long-run avoidable costs. In the short-run, all costs are considered Fixed with the exception of fees paid to outside advertising agencies. In the long run, a Mixed-Statistical approach is used, with the exception of

several route-specific advertising ResCens which will be fully avoidable in the long run if that route is eliminated.

8.5 Stations

8.5.1 Stations–Route and Shared Subfamilies

Family: **Stations-#500**
Subfamily: **Stations-Route-#501**
Subfamily: **Stations-Shared-#502**
Approach: **Mixed-Statistical**

The Stations-Route Subfamily performs station service activities at station ResCens dedicated to a single route. These activities include ticketing, baggage and express services, stationmaster and usher activities, station cleaning and maintenance, snow and ice removal, making passenger inconvenience payments, and training and supervision of staff. The Stations-Shared Subfamily performs similar activities at stations ResCens serving multiple routes. Additional activities performed at shared stations include operating first class lounges and providing Red Cap and porter services.

Expenses for the Station-Route Subfamily for FY07 were $34.0 million (0.8 percent of Amtrak's total expenses), while those for the Stations-Shared Subfamily were $155.7 million and (3.7 percent of total expenses) in the same year.

Regression Data

While the Stations Family is divided into two Subcategories; Route and Shared stations, for statistical analysis both Subfamilies combined into a single dataset, but then divided between the staffed and unstaffed categories or groupings. Most staffed stations are represented by one ResCen, but a few very large stations are represented by multiple ResCens. Because activity measures are for the entire station, for consistency between stations with single and multiple ResCens it was necessary to treat multiple-ResCen stations as a single observation for estimation purposes. Below is a list of ResCens whose costs were combined to correspond with available activity statistics.

Chicago	*Philadelphia*	*Washington*	*Los Angeles*
2725	2412	2402	2882
0302	1167	2416	2883
0305	2411	2417	2884
2711	2413	2418	

In contrast, multiple unstaffed stations can be represented by a single ResCen. In these cases the cost and activity data are summed for the station group "managed" by each ResCen. Due to the

differences in the data and fundamental differences in the operations of staffed and unstaffed stations. the Family was analyzed as two separate categories or groupings.

The variable chosen to represent activity levels for the Stations Family is TBD. TBD is available at the station level in cases with multiple ResCens for a single location rather than at the ResCen level. This provided an additional reason for combining ResCens for some larger stations as noted above.

Statistical Model and Results

Linear, log-log, and linear-log functional forms were tested for the Station Family. The linear relationship was found to have the best statistical fit for both staffed and unstaffed groupings. The most appropriate model was selected through examining regression statistics. The statistical tests provided guidance on which specification captured most of the variation in avoidable costs relative to a particular activity.

Staffed Stations. For staffed stations, long-run avoidable costs were found to be larger than short-run avoidable costs.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * TBD
Observations	594
R-square	0.87

The short-run (fixed-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	730.518	99%
TBD	0.53	99%

The long-run (between-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	203,275	99%
TBD	3.13	99%

The statistical results for staffed stations show that costs rise linearly with increases in passenger activity. There do not appear to be any economies of scale for the Staffed Stations Subfamily. Staffed station costs change more dramatically in the long run compared to the short run.

indicating that some costs occur that cannot be avoided within a year of a change in activity levels.

Unstaffed Stations. For unstaffed stations, long-run avoidable costs were found to be statistically equivalent to short-run avoidable costs. A Hausman test was used to verify that the random-effects results equal the fixed-effects results. The random effects results, shown below, represent the best estimate of both long- and short-run avoidable costs for unstaffed stations.

The overall statistical results for the panel dataset are provided in the following table.

Equation	Cost = Constant + B * TBD
Observations	63
R-square	0.234

The short-run and long-run (random-effects) model results are provided in the following table.

	Coefficient	**Significance Level**
Constant	36,391	99%
TBD	0.22	99%

The results for unstaffed stations show that costs rise linearly with increases in passenger activity. There do not appear to be any economies of scale for the unstaffed stations Family. Short-run and long-run avoidable costs are statistically equivalent, indicating that all costs that can be avoided are avoidable within a year of a change in activity levels.

In all of the cases above, these regression equations are used to generate predicted ResCen costs before and after a route is eliminated. Avoidable Costs are calculated by applying the percentage change in predicted costs to actual ResCen costs.

8.6 General & Administrative Family

8.6.1 Corporate Administration Subfamily

Family: **General & Administrative - #600**
Subfamily: **Corporate Administration - #601**
Approach: **Fixed**

Scope

The Corporate Administration Subfamily performs managerial and administrative functions that are properly considered corporatewide in scope. Expenses included in the Corporate Administration Subfamily are expenses such as the president's salary, expenses of the inspector

general's office, and similar costs that support the *overall* mission of the entire Amtrak enterprise rather than a subset of operations.

Subfamily expenditures for FY07 were $224.7 million and account for 5.4 percent of Amtrak's total expenses.

Avoidable Cost Approach

For the purpose of estimating Avoidable Costs, the Corporate Administration Subfamily is classified as having Fixed Costs. Expenditures in the Corporate Administration Subfamily are for corporatewide activities and are not tied to a particular Route. Avoidable Costs relative to a particular Route would not be significant or measurable: therefore, costs incurred at ResCens in this Subfamily are 100 percent Fixed.

8.6.2 Centralized Services Subfamily

Family: **General & Administrative - #600**
Subfamily: **Centralized Services - #602**
Approach: **Fixed**

Scope

The Centralized Services Subfamily performs services for other portions of the Amtrak enterprise and is properly considered corporatewide in scope. These services include computer services, payroll operations, human resources, and employee services available corporatewide. Centralized Services costs represent services provided to and benefiting all employees and businesses operating under the Amtrak corporate umbrella.

Subfamily expenditures for FY07 were $234.6 million and account for 5.6 percent of Amtrak's total expenses.

Avoidable Cost Approach

For the purpose of estimating Avoidable Costs, the Centralized Services Subfamily is classified as having Fixed Costs. Expenditures in the Centralized Services Subfamily are for corporate-wide activities and are not tied to a particular Route. Avoidable costs relative to a particular Route are not significant or measurable, therefore, costs incurred at ResCens in this Subfamily are 100 percent fixed.

8.6.3 Qualified Managerial & Services Subfamily

Family: **General & Administrative - #600**
Subfamily: **Qualified Managerial & Services - #603**
Approach: **Fixed**

Scope

The Qualified Managerial & Services Subfamily performs high-level managerial and supporting activities related to a subset of the total Amtrak enterprise. Although the ResCens in this Subfamily perform missions similar to the other G&A Subfamilies, because they do not support the entire operation, they are not considered corporatewide and their allocation method needs to reflect this.

Subfamily expenditures for FY07 were $107.4 million and account for 2.6 percent of Amtrak's total expenses.

Avoidable Cost Approach

For the purpose of estimating Avoidable Costs, the Qualified Managerial & Services Subfamily is classified as having Fixed Costs. Expenses in the Qualified Managerial & Services Subfamily are for support activities and are not tied to a particular Route. Avoidable costs relative to a particular route are not significant or measurable, therefore, costs incurred at ResCens in this Subfamily are 100 percent fixed.

8.6.4 Direct Customer (Non-NTS) Subfamily

Family: **General & Administrative - #600**
Subfamily: **Direct Customer (Non-NTS) - #604**
Approach: **Fixed**

Scope

The Direct Customer (Non-NTS) Subfamily performs functions that support only Commercial or Commuter customers such as managing commuter operating contracts, real estate assets, and other support to customers outside of Amtrak's train operations. These ResCens are exclusively outside the NTS and have specific non-NTS customers.

Subfamily expenditures for FY07 were $9.4 million and account for 0.2 percent of Amtrak's total expenses.

Avoidable Cost Approach

For the purpose of estimating Avoidable Costs, the Direct Customer (Non-NTS) Subfamily is classified as having Fixed Costs. Costs incurred at ResCens in the Direct Customer (Non-NTS) Subfamily are related to businesses other than Amtrak's core business of providing intercity passenger train service, therefore, they are 100 percent fixed with respect to any Amtrak Route.

8.6.5 Subsidiary Subfamily

Family: **General & Administrative-#600**
Subfamily: **Subsidiary-#605**
Approach: **Mixed-Detailed**

Scope

The Subsidiary Subfamily represents ResCens[45] associated with Amtrak's five Subsidiary Companies, namely Chicago Union Station Company (CUS), Passenger Railroad Insurance Limited (PRIL), Penn Station Leasing, LLC (PSL), Washington Terminal Company (WTC), and 30th Street Limited, L.P. (TSL). The subsidiaries and their activities are diverse: CUS owns and operates Chicago Union Station and various nearby real estate parcels; PRIL is an offshore captive insurance company that allows Amtrak to acquire insurance coverage that cannot be readily obtained domestically; PSL is a subsidiary established for the purpose of acquiring New York Penn Station from Amtrak and leasing it back to the parent company; WTC owns various parcels in the vicinity of Washington's Union Station, although not the station itself; TSL was established for the purpose of rehabilitating and leasing 30th Street Station in Philadelphia, although the station itself is owned by Amtrak.

Subfamily expenditures for FY07 were $17.3 million and account for 0.4 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Subsidiary Subfamily is unique in the APT system as the ResCens within the Subfamily are unrelated to the other members in terms of the function they perform. Two of the subsidiaries, CUS and TSL, are essentially station operations ResCens, PSL and WTC are Capital-related, while PRIL is related to the NTS. In this respect, Subsidiary is similar to the two Multiple subfamilies (#205 and #305) because it performs varied functions and activities, and hence a single avoidable cost method cannot be used.

In the case of the two Multiple Subfamilies, avoidable cost statistical results from other directly related Subfamilies could be extrapolated to those subfamilies by grouping the Multiple Subfamily expenses by Function. For example to estimate the avoidability of Turnaround expenses within the MoE-Multiple Subfamily, the avoidable cost equations for Turnaround Subfamily #201 were used. This assumes that the relationship between Turnaround Service activity and cost relationships are the same in MoE-Multiple Subfamily and the Turnaround Subfamily, and therefore, the results from the statistical analysis of the Turnaround Subfamily can be applied to estimated avoidable costs for Turnaround Service Functions in the MoE-Multiple Subfamily.

A variation of this approach is used for the Subsidiary Subfamily. In the Multiple Subfamilies, costs were investigated and then grouped at the Function level for purposes of estimating avoidable costs, while in the Subsidiary case, entire ResCens will be assigned the avoidable cost approach of its related Subfamily. In the Subsidiary Subfamily, four of the five ResCens perform activities that parallel that of other Subfamilies and would have been part of those Subfamilies except for having been setup as financially distinct, wholly-owned subsidiaries. This key distinction is what groups the ResCens as the separate Subsidiary Subfamily.

[45] The Subfamily includes five Amtrak ResCens and 10 "pseudo-ResCens," five of which correspond to the subsidiaries themselves and five to virtual ResCens used to process elimination entries between the parent company and the subsidiaries.

Table 8-13: Subsidiaries and Related Subfamilies

Amtrak Subsidiary	Related Subfamily Avoidable Cost Approach
CUS	Stations
PRIL	none
PSL	Capital
TSL	Stations
WTC	Capital

Both CUS and TSL are similar to the ResCens in the Stations Family and will utilize the statistical equations for that Family to estimate avoidable cost. All the costs recorded at PSL and WTC are capital-related and will be dealt with in the Capital Family and are excluded from the avoidability analysis of the Subsidiary Subfamily.

Unlike the other Subsidiary ResCens, PRIL does not have a similar Subfamily from which to replicate an Avoidable Cost approach. Hence, a different approach is needed. A majority of the costs for this subsidiary are associated with Amtrak's accrual for self-insurance for passenger claims, insurance policies with outside companies, and professional fees. These expenses are fixed in the short term but would vary over time as fewer passengers translate into a lower overall exposure and risk, fewer claims, and lower overall subsidiary costs. Long-term PRIL costs would be fully avoidable with respect to a single route but fully-fixed in the short term.

Summary

The Subsidiary Subfamily will follow a similar approach to the MoE-Multiple and Transportation-Multiple Subfamilies by utilizing the Avoidable Cost approach of other subfamilies. The Subsidiary Subfamily will use the Avoidable Cost approaches from the Stations and Capital Subfamilies to estimate the Avoidable Costs of individual ResCens related to each approach.

8.7 Capital Family

8.7.1 Capital Subfamily

Family: **Capital - #700**
Subfamily: **Capital - #701**
Approach: **Mixed-Detailed**

Scope

As explained in Section 7.7 above – and in more detail by Appendix E – the Capital Family consists of a series of "synthetic" charges representing the capital costs of operating Amtrak's NTS and other businesses, calculated as an annualization over the depreciable lives of the

expenditures made (or capital lease engagements undertaken) to acquire or construct all Amtrak's physical property and equipment assets, as recorded on its books of account, viz:

- Passenger cars
  - Acela trainsets,
    Talgo cars, and
  - All other passenger cars (high and low-level),
- Auto-carrying cars ,
- Materials handling cars,
- Passenger locomotives (electric and diesel),
- Railway work equipment and ROW machinery,
- Highway equipment,
- Other mobile property (shop machinery and computer equipment),
- Car and locomotive shops,
- Stations serving more than one NTS route,
- Stations serving a single NTS route,
- Office buildings, and
- Other fixed property.[46]

As noted in Appendix E, whereas the synthetic capital charges generally reflect a requirement for both a "return of" and a "return on" these Amtrak investments, their calculation with respect to land assets represents solely the "return on" element, thereby following the financial accounting convention of not recognizing an expense for depreciation of land values.[47]

Avoidable Cost Approach

In Section 8 of Appendix E Volpe proposed estimating the avoidability of these capital charges in case of an individual NTS route abandonment by collaboratively establishing with Amtrak staff a reasonable "disposition period" for each asset group that reflects the time horizon within which unused assets in the group could be sold, transferred to other train services or other business lines, or otherwise disposed. For purposes of having a base methodology, however, a simplified assignment of avoidable percentages to which capital charges in each of the broad asset categories is used. Importantly, avoidable in this sense does not refer to the extent to which Amtrak's need for physical property and equipment is ultimately variable with its service output on any individual NTS route. Rather, in the case of abandonment of such a route, avoidability

[46] Land for transportation purposes, grading/other ROW expenditures, tunnels/subways, bridges/trestles/culverts, fences/snowsheds/signs, roadway buildings, water/fuel stations, communication systems, signals/interlockers, power plants, power transmission systems, public improvements, ties, rail, and ballast.

[47] In Section 3 of Appendix E, Volpe provided for calculation of a "return on" element both on land values and on a suggested allowance for working capital, the latter consisting principally in Amtrak's case of its current materials and supplies inventory. Although such inventory is a physical asset, the potential generation of a capital charge on the basis of any current assets is considered here as an option for Amtrak and has not been further treated in this report.

refers to the degree that Amtrak's physical assets, and their associated capital costs that were allocated to that route, could be:

1. Used alternatively, through the end of the service lives assumed in calculation of their respective capital charges, in support of other Amtrak routes or activities and in a way permitting postponement of necessary Amtrak property or equipment expenditures that would have generated annual capital charges at least as high as those on the reused assets, or.
2. Disposed of by sale to outside parties (commuter or freight railroads, non-railroad entities, etc.) at prices net of sale costs that would provide, when combined with their current annual capital charge multiplied by the number of years of their so far accumulated service life, a complete return of and return on their original acquisition cost (at the return-on-investment rate currently employed for capital charge purposes.[48]

In both these circumstances, the possibility of alternative use depends on the physical suitability of the asset in the alternative service although in some applications economical modifications may be made. Electric locomotives having to operate on electric power-equipped railway lines and Amtrak's particular high-level passenger cars being usable only at facilities without either excessively restricted overhead clearances or high-level platforms are notable and obvious examples of basic physical limitations that may preclude redeployment.

On this basis, capital charges for all the asset categories listed above, except the five types shown in Table 8-14, are treated as 0 percent avoidable within one year and 0 percent avoidable as well within five years. The table also gives the default value for the proportion of the capital charge to treat as avoidable for these assets. Applying 0 percent to all other categories recognizes what appears to be the questionable prospects both for selling the specialized rolling stock from a hypothetically discontinued Acela, Auto Train, or Talgo service at prices meeting the complete investment return standard noted above, and also for partially disposing of station, roadway, shop or office building assets in a manner meeting either the above sale or "alternative Amtrak use" standards in response to hypothetical discontinuance of a single NTS route. It is recognized that in the case of Acela service, for example, application of 0 percent will increase, relative to other routes, the reported difference shown using this methodology between avoidable and fully-allocated costs, the latter of course including the total capital charge calculated for Acela trainsets.[49]

[48]The default assumption is that the sale proceeds would be such that the annual capital charge would be an accurate estimate of the *annual* avoidable cost, but if a different outcome is expected, the annual avoidable cost estimate would need to be adjusted.

[49] As noted in Appendix E, the Uniform Rail Costing System (URCS) used by the STB for guidance in freight rate regulation cases treats as 100 percent variable with an individual railroad's service output (over an intermediate time period) all capital return allowances calculated for its rolling stock and as 50 percent variable the corresponding allowances for its rail lines and other fixed physical assets. This might appear to be in conflict with the percentages suggested here, but URCS is intended to answer a different basic question, which is, how, within the constraint of the ultimate capacity of a railroad's current network, its costs per unit of service output (freight ton-miles, for example) may be expected to vary with the amount of such output actually produced. In the absence of a car surplus producing more freight ton-miles, more cars are naturally required. Likewise, in the absence of ready-to-use excess capacity running more ton-miles on an existing network is likely to require some additional capital expenditures on fixed assets. By contrast, this methodology is concerned with what the effect on Amtrak's total

Table 8-14: Avoidability Percentages for Amtrak Assets

Asset Type	Long-Term Avoidable Percent
Passenger cars and locomotives other than Acela trainsets and Talgo cars	50%
Materials handling cars	50%
Railway work equipment and ROW machinery	75%
Highway equipment	100%
Stations serving a single NTS route	75%

The possible significance of Amtrak physical assets having resale value as scrap has not been considered for purposes of these suggested percentages.

Discussion between Volpe and Amtrak staff has indicated that reduced service on an individual NTS route might well result in freed-up rolling stock simply being stored rather than immediately deployed on other routes, which are being operated to Amtrak's satisfaction within the capacity constraints of its present fleet. The avoidability percentages suggested for cars and locomotives, other than the Acelas and Talgos, are not meant to indicate that temporary rolling stock surpluses on Amtrak would always be negligible or would necessarily be obviated by easy sale to outside parties at favorable prices. However, a trade-off appears to be involved. On the one hand, equipment capital costs on an NTS route might be misrepresented as totally avoidable on the basis of an equipment demand from alternative Amtrak routes that is implicitly, but erroneously, assumed to be constant. On the other hand, these costs might be misrepresented as totally unavoidable when at some point in the future—the closeness of which isn't specified and would presumably depend on the relative size of the route in question—fleet renewal necessities will suddenly convert them to avoidable. In those asset categories where a positive avoidability percentage is used, the implicit decision is to err on the side of capital cost avoidability being overly specified at some points in time to avoid this specification being unstable and highly dependent on Amtrak's current fleet renewal situation.

8.8 Utilities Family

8.8.1 Utilities Subfamily

Family: **Utilities - #800**
Subfamily: **Utilities - #801**
Approach: **Fixed**

costs would be if an entire segment of its service output were to stop running with concomitant freeing-up of the cars/locomotives and fixed facility capacity that had been involved.

Scope

The Utilities Subfamily includes utilities expenses such as gas, electric, and water provided at various terminals, stations, and support facilities. Most of Amtrak's utilities expenses are recorded at ResCens already in another Subfamily and are allocated by that Subfamily method. However, ResCens in the Utilities Subfamily support multiple departments and utility costs that cannot be attributed to a single ResCen or activity. The Washington Utilities ResCen, for example, incurs utilities costs for mechanical, transportation, and mechanical operations.

Subfamily expenditures for FY07 were $17.0 million and account for 0.4 percent of Amtrak's total expenses.

Avoidable Cost Approach

Utilities Subfamily costs at multipurpose facilities are properly allocated to the trains and businesses supported by those facilities, but the elimination of a single route will not result in significant or measurable cost savings. An exception to this general rule occurs if a facility supports only one route, in which case Amtrak would eventually dispose of the facility if that route were eliminated. Therefore, Utilities Subfamily costs are considered 100 percent fixed in the short run, and are fixed in the long run, unless a particular Subfamily ResCen supports only a single route.

8.9 Police, Security, & Environmental Safety Family

8.9.1 Police Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Police - #901**
Approach: **Fixed**

Scope

The Police Subfamily performs traditional patrolling and protection duties in support of Amtrak trains, facilities, and ROW. The Police Subfamily consists of two Subcategories: National and Regional/Local. The Regional/Local Subcategory provides the frontline policing duties, while the National Subcategory coordinates and supports the operation across the Amtrak network.

Subfamily expenditures for FY07 were $35.5 million and account for 0.9 percent of Amtrak's total expenses.

Avoidable Cost Approach

Although the Police Subfamily consists of two separate Subcategories, these categories are treated in the same manner with regard to avoidable costs. ResCens in the National Subcategory coordinate national policing services and their costs cannot be attributed to the activity level of a particular Route. While activities at ResCens in the Regional/Local Subcategory are focused on and around passenger stations, these ResCens also police Amtrak's infrastructure at other

locations, so their costs cannot be attributed to the activity level of a particular Route. Costs at ResCens in the Regional/Local Subcategory would likely be fixed and any avoidable costs for a particular route would not be significant or measurable. Therefore, costs for this entire Subfamily are considered 100 percent Fixed in both short and long term

8.9.2 Security Strategy & Special Operations Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Security Strategy & Special Operations - #902**
Approach: **Fixed**

Scope

The Security Strategy & Special Operations (SSSO) Subfamily works together with the Police Subfamily to provide traditional patrolling, intelligence, and counterterrorism efforts in support of Amtrak trains, facilities, and ROW. Additionally, the SSSO Subfamily manages all capital and grant projects related to security operations such as the installation of new security cameras on tunnels, bridges, and other rights of way as well as all projects funded by the Department of Homeland Security.

Subfamily expenditures for FY07 were $8.0 M and account for 0.2 percent of Amtrak's total expenses.

Avoidable Cost Approach

The SSSO Subfamily supports all Amtrak Routes through its national policing and coordinating security functions. Costs incurred at ResCens in this Subfamily are fixed with respect to activity levels and these costs are considered 100 percent Fixed.

8.9.3 Environmental & Safety Subfamily

Family: **Police, Security & Environmental/Safety - #900**
Subfamily: **Environmental & Safety - #903**
Approach: **Fixed**

Scope

The Environmental & Safety Subfamily performs activities to ensure and oversee environmental, health, and safety issues of Amtrak and its employees. These activities include reporting and safety compliance requirements by state and federal agencies as well as compliance with environmental regulations.

Subfamily expenditures for FY07 were $9.8 million and account for 0.2 percent of Amtrak's total expenses.

Avoidable Cost Approach

The Environmental & Safety Subfamily oversees safety matters for the entire Amtrak enterprise and especially its employees. These costs cannot be attributed to a single Route and any avoidable costs for a particular Route would not be significant or measurable. Therefore, these costs are considered 100 percent fixed.

9 Conclusions and Recommendations

This report provides background information on and a description of the recommended methodology for determining Amtrak's Avoidable and Fully Allocated Costs. It fulfills the Congressional mandate outlined in the 2005 Consolidated Appropriations Act. Once implemented, the methodology will provide Amtrak management and the FRA with useful cost information about Amtrak's routes and businesses. Since the methodology was developed collaboratively by the FRA, Amtrak, and the Volpe Center and in conjunction with Amtrak's APT system information system development, the likelihood is high that it will be successfully implemented and used by Amtrak stakeholders.

9.1 Recommendations

Even though Phase 1 of this task is complete, there is still work to do. Amtrak diligently continues to develop the information technology system to support implementation of the methodology. FRA and Volpe will continue to work with Amtrak to support this development where appropriate. Additional immediate follow-on activities are essential if the methodology is to be successfully implemented.

- *Validation.* Once implemented, the methodology must be validated to ensure that the recommended methodology has been faithfully and accurately executed in Amtrak's new information technology system and that it does not produce unintended results.
- *Updating Procedures.* Monthly and annual update procedures need to be defined and followed to ensure that the methodology maintains its accuracy and usefulness given the operational and financial system changes at Amtrak.
- *Documentation.* Various types of documentation need to be developed, including operations and user manuals. Amtrak should also make a strong effort to communicate information on the methodology to stakeholders who were not involved in the methodology development process.

9.2 Conclusions

The methodology described in this report is a great improvement over RPS in terms of allocation logic, internal consistency, and transparency. It will provide improved and timelier information on the Fully Allocated costs of Amtrak Routes and will estimate Avoidable Costs for those Routes. The methodology was developed within the constraints of Amtrak's current operational environment and financial and other informational technology systems. Several opportunities exist to refine the methodology and need to be explored once the Phase 1 methodology is implemented. These include improved sources of statistics for Amtrak's non-NTS businesses and new and refined statistics for Amtrak trains to facilitate the analysis of costs at the subtrain level. Strategies need to be developed for increasing the share of costs coded directly to trains and routes, in particular, fuel and passenger inconvenience costs. Finally, refinements can be expected to the equations used to estimate the avoidable costs of Amtrak trains once the methodology is implemented and more detailed data becomes available.

Exhibit E

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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

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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

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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

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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

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- 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

Direct Costs (1)		Shared Costs (2)	Capital Costs (2)
Direct Labor	**Other Direct**		
• Train & Engine Crew Labor • On Board Service Labor and Support	•Host RR Maintenance & Incentives •Fuel and Power •Commissary •Car & Loco Maintenance and Turnaround •Direct Advertising •Commissions •Reservations and Call Centers •Customer Concession (Passenger Inconvenience) •Connecting Motor Coach •Stations – Route	•Stations – Shared •MOE Supervision, Training and Overhead •MOW & Support •Yard Operations •Marketing and Distribution •Police, Environmental, and Safety •T&E Overhead and Operations Management •Utilities •General and Administrative – Amtrak & States	•Rolling stock •Stations •Amtrak-owned ROW •Maintenance Facilities •Technology & Systems

1) Required charge under Sec. 209

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

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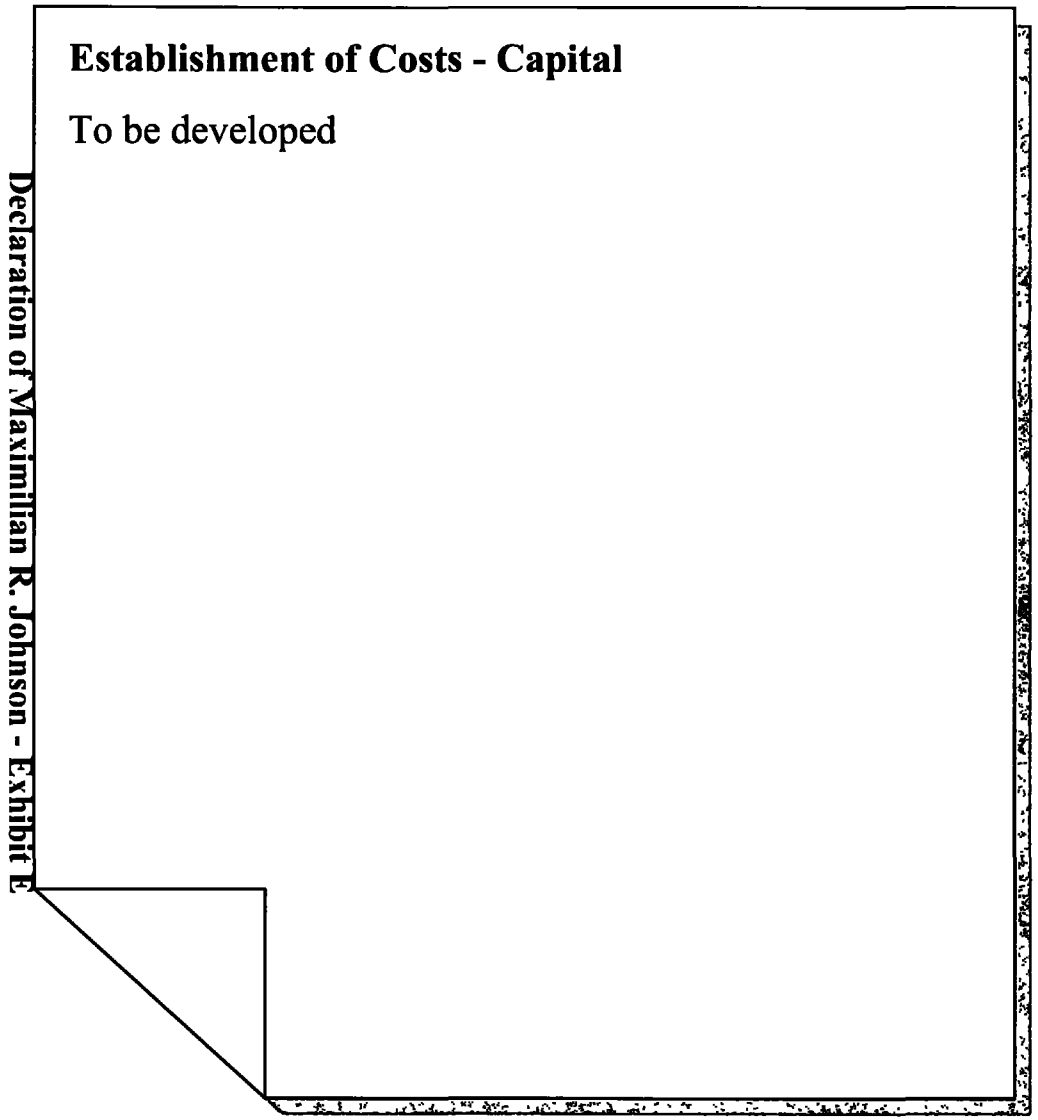
Draft Policy – Operating

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

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Draft Policy – Establishment of Capital Costs



- 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.

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- 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.

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- 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.

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- 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

Draft Policy – Forecasts

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.

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- 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)

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- 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.

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- 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...

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- 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.

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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.

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- 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.

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- 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

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Draft Policy – Term of Agreements

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

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- 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.

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- 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

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Appendices

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

Appendix B: Routes Affected by PRIIA Sec 209

Appendix C: Relevant Legislation

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

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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	-

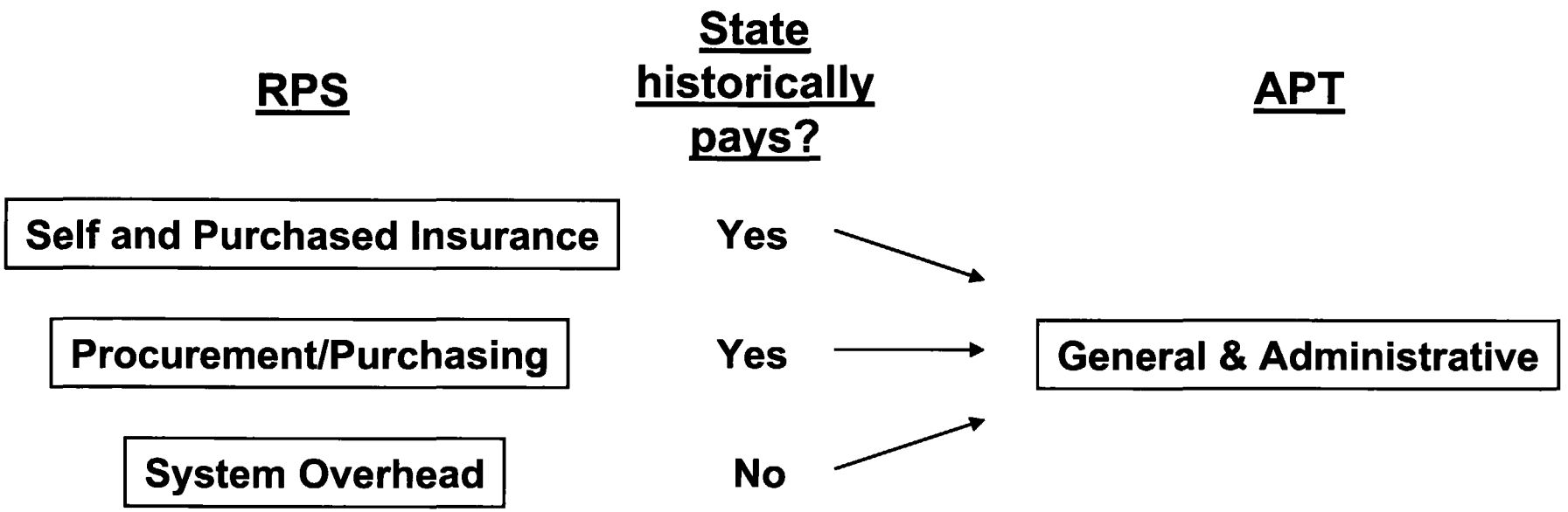
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- Review and Discuss Draft Policy
- Define Major Cost Categories
- Define State-Supported General & Administrative
- Define State-Supported Capital Charge

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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



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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 corporatewide in scope Includes president's salary, inspector general, similar costs that support the *overall* 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 corporatewide in scope. Includes computer services, payroll operations, human resources, employee services available corporatewide	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 corporatewide 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			$376,740	$135,419	$128,595	$112,726	
	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.

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

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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.

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Exhibit F

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Amtrak State Partnerships
Section 209 Pricing Discussion

Max Johnson

Lead Policy Analyst
Policy & Development Department

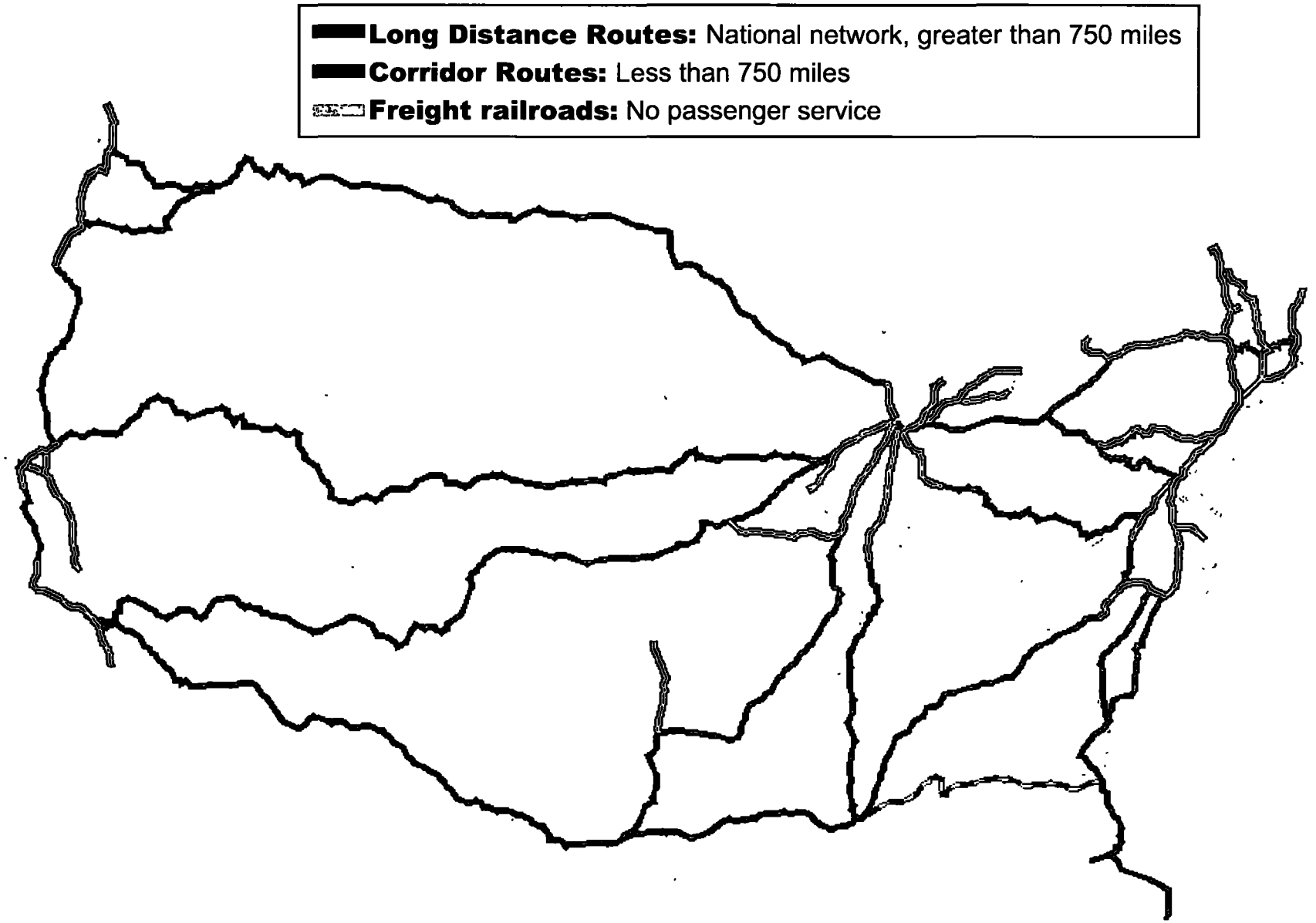
Midwest Interstate Passenger Rail Commission Meeting, June 25
Chicago, IL

Today's Discussion

- History of State-Supported Service
- PRIIA Section 209 text
- Section 209 Implementation: Actions Completed
- Next Steps, Key Questions

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Amtrak Network Today



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Statutory Evolution of State Supported Services



- 1970 Rail Passenger Service Act
  - Amtrak created to assume passenger train operations of US railroads
    - "Public bargain": Amtrak pays incremental access fees in exchange for relieving railroads of passenger service obligations (and losses)
  - Basic System: Amtrak required to operate designated routes
  - Section 403(b): States can request additional service if they cover portion of costs

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Statutory Evolution of State Supported Services



- 1974-1986
  - State share of costs specified under 403(b) amended by Congress 6 times
  - Modest expansion of State-supported service

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Statutory Evolution of State Supported Services



- 1986 provision
  - States required to pay portion of "short-term avoidable loss"
    - 45% in Year 1, 65% in Year 2
    - 50% of associated capital costs
  - Significant expansion in state-supported service in early 1990s

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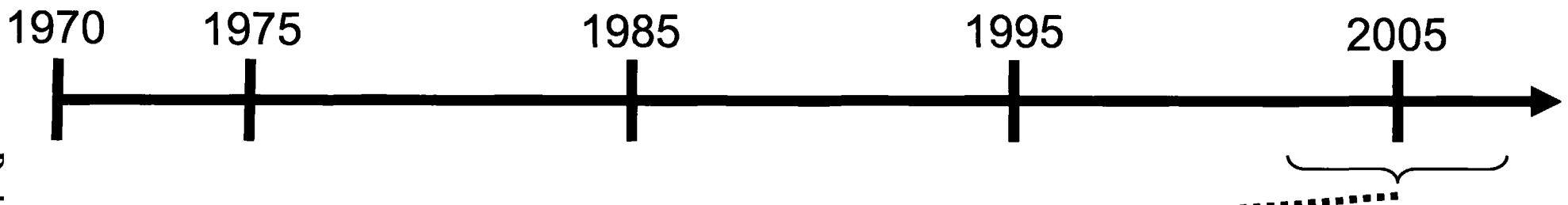
Statutory Evolution of State Supported Services



- 1997 Amtrak Reform Act
  - Repeals Section 403(b), eliminating statutory requirements for State-supported trains
  - Also repeals requirement for Basic System trains
- 1995-2001
  - Amtrak seeks higher State support payments, but approach and agreements vary widely across 3 new Strategic Business Units (SBU's)

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Statutory Evolution of State-Supported Services



- 2002-2007
  - Pricing terms for State-supported trains (formerly 403(b) trains) standardized:
    - States pay full "direct and shared operating costs not covered by revenues"
    - No charge for capital

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Statutory Evolution of State-Supported Services



- 2008 .....
  - No statutory guidance for how Amtrak should charge States
  - State cost for corridor service varies significantly
    - Legacy "Basic System" trains evolved into "system corridor" trains
    - Issue of equity for States supporting all corridor trains
  - Much rolling stock nearing the end of its life cycle without a plan for its replacement
    - Some States purchased their own equipment; some States have been using Amtrak equipment for no charge

- **To address these and other issues: Passenger Rail Investment and Improvement Act of 2008 (PRIIA)**

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Today's Discussion

- History of State-Supported Service
- PRIIA Section 209 text
- Section 209 Implementation: Actions Completed
- Next Steps, Key Questions

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PRIIA Initiatives and Requirements

Sec. 209 - State-supported routes:
Amtrak, states, and FRA must develop and implement a single nationwide standardized methodology for establishing and allocating operating and capital costs among the states and Amtrak

- Sec. 207 - Metrics and Standards
- Sec. 210 - Long Distance Routes
- Sec. 212 – NEC Infrastructure & Operations Improvements
- Sec. 213 – Passenger Train Performance
- Sec. 301 - Capital Assistance
- Sec. 302 - Congestion Grants
- Sec. 303 - State Rail Plans
- Sec.305 - Next Generation Corridor Equipment Pool
- Sec. 307 - Federal Rail Policy
- Sec. 501 - High Speed Rail Grants

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Section 209 Overview: Clarifying the State/Federal Partnership

- Federal government supports:
  - Long distance network, for a base level of nationwide connectivity
  - Capital investments in systemwide equipment and infrastructure
    - Computer/financial systems, shops, etc. for long distance and corridor service
- State governments support:
  - Intercity corridor passenger rail, at the level desired by States
    - Based on State Rail Plans
    - Informed by operating and capital cost analysis, developed through this Sec 209 process
    - Documented in an updated Amtrak service agreement
- Federal government additionally supports States:
  - Amtrak's incremental cost access rights and dispatching priority on host railroads
  - Sec 209 does not require fully-allocated costs—difference is Federal responsibility via additional Amtrak funding
  - Sec 209 and Sec 301 (Capital Assistance) allow states to use PRIIA capital funding for host railroad capital payments and Amtrak capital charge

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Section 209 text: (a) General

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

- Passed Oct 16, 2008: 2 years = Oct 16, 2010
- "in consultation with": collaborative process
- Single, nationwide, standardized methodology: all corridors treated equitably
- Operating and capital
- 750 miles or less, excluding NEC

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Section 209 text: (a) (1) & (2)

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

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- Passed Oct 16, 2008: 5 years = Oct 16, 2013
  - Transition period
- "allocates" – Amtrak Performance Tracking (APT)
- "costs incurred only for the benefit of that route" = **Direct Costs**
- "costs incurred for the common benefit of more than 1 route" = **Shared Costs**

Section 209 text: (b) Revisions

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

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- This will be a "living" policy
  - Changes due to continuing refinements of Amtrak accounting system

Section 209 text: (c) Review

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year after the Board's determination of the appropriate methodology.

- Failure results in the development and imposition of a formula by the Surface Transportation Board (STB)
- §24904(c) of Title 49:
  - "…the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation"
- If Oct 16, 2010 voluntary deadline missed, then 1 year to STB implementation

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Section 209 text: (d) Chapter 244 Funds

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

- Chapter 244, Title 49:
  - Capital grants can be used to pay capital charges

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Today's Discussion

- History of State-Supported Service
- PRIIA Section 209 text
- Section 209 Implementation: Actions Completed
- Next Steps, Key Questions

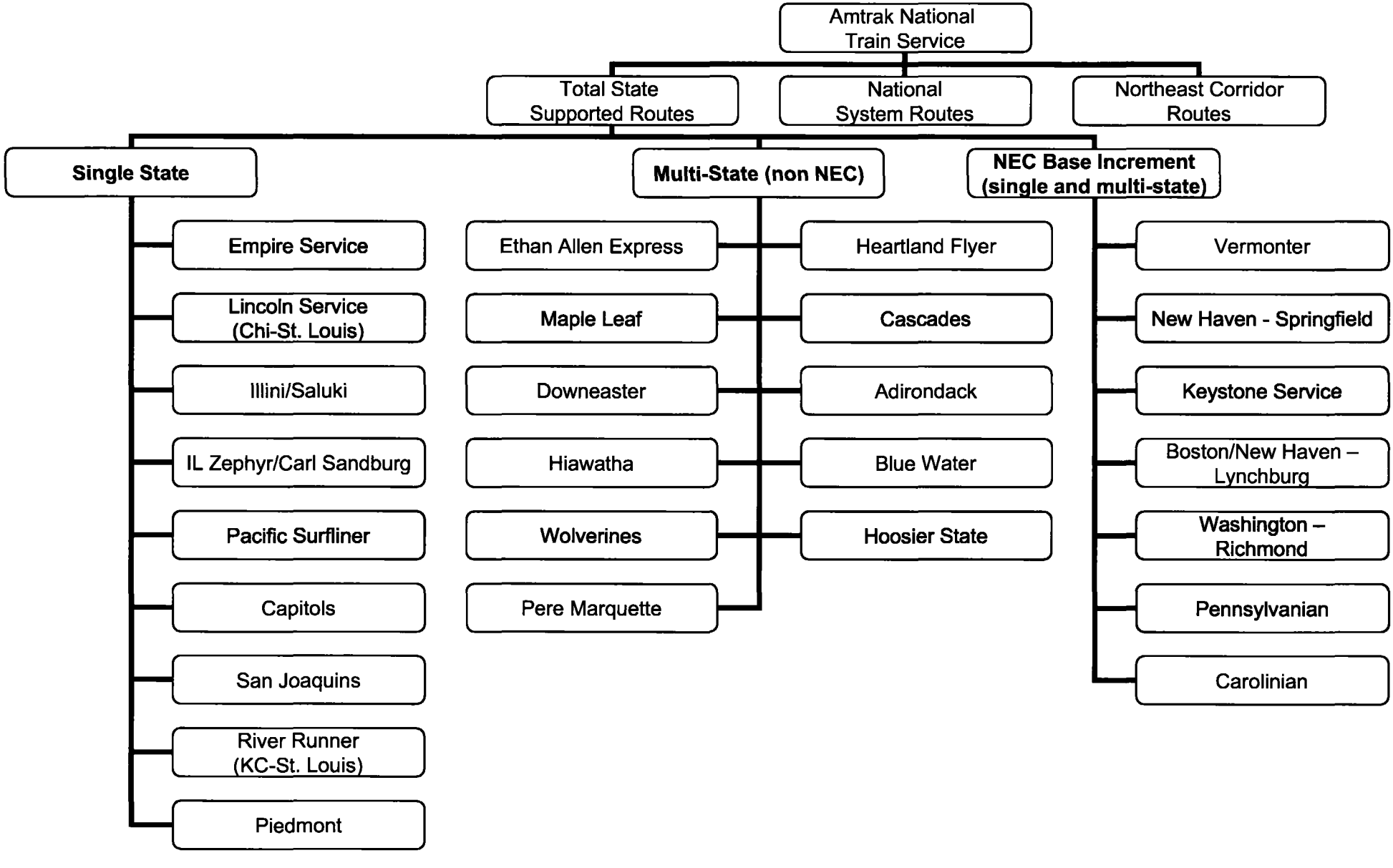
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State Supported Train Pricing – Principles and Challenges

- Basic principles for new operating cost methodology:
  - Consistency: Policy must convert legacy "system" corridor trains
  - Transparency: Understandable/straightforward
  - 100% of direct costs plus a proportionate amount of indirect costs
  - Service level based (as service changes associated costs change)
  - Management/assignment of risk
- Challenges:
  - Linkage of future costs with future service plans
  - Linkage to the new Amtrak Performance Tracking (APT) system
  - Definition and cost recovery for capital costs—largely equipment and facilities
  - Cost forecasting and alignment with Amtrak's operating budget
  - Type of service contract (pure cost-based, performance-based, negotiated contract structure)

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Segmentation of Amtrak's National Train Service



Some/all service not currently paid by states

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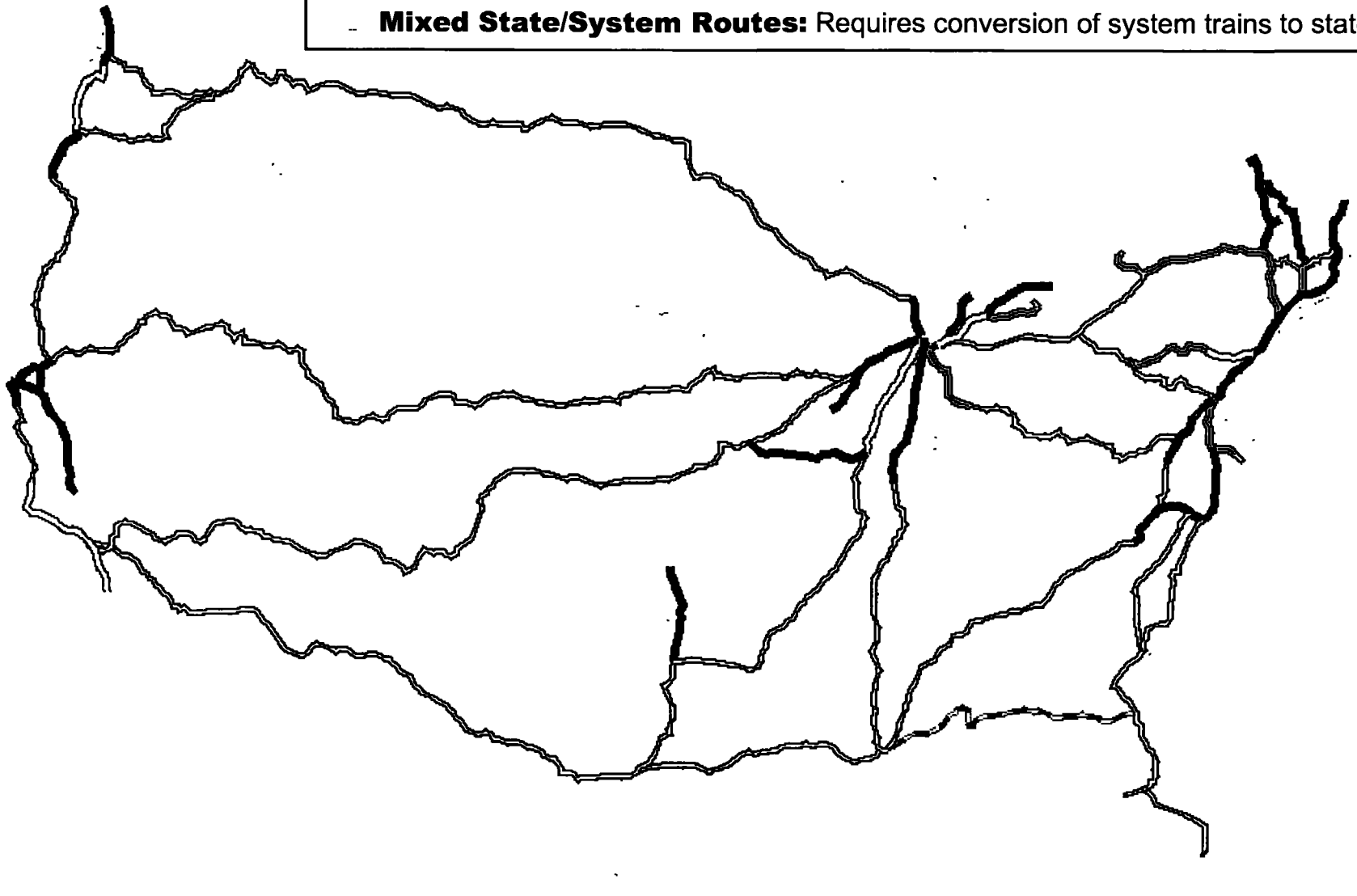
Corridor Services – Impacted Routes

NEC Spine: Excluded from Section 209

State Supported Routes: Require consistent agreements under Section 209

System Corridor Routes: Require new agreements, no state support in place

Mixed State/System Routes: Requires conversion of system trains to state support



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First Steps Toward a Standard Structure: Agreements

- Begin transformation to a uniform structure: FY 2010 agreements based on an attempt to provide consistent treatment of major categories and risk—for those states with *existing* contracts (though not all states have concurred)

- Payments composed of service fee and billed actuals:
  - Actual passenger revenues and host railroad payments
  - Actual fuel, based on agreed-upon usage and cost methodology
  - Fixed values for remaining costs—defined as "service fee"—based on inflation-based increases (as adjusted, in some cases) to FY 2009 contract amounts

- No change in current state-specific agreements on cost sharing for FY11— **for now**

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First Steps Toward a Standard Structure: APT

- Adopt Amtrak Performance Tracking (APT) system as the analytical framework for defining the future policy—new Federally supported model
  - Cost allocation system for assigning shared/fixed costs to individual routes
  - Uses operating statistics to allocate costs to different routes. Examples:
    - Charge station costs based on passengers using that station
    - Charge equipment maintenance based on how much equipment used
  - Replaces, improves upon former RPS (Route Profitability System)
    - Client-server vs. mainframe; cost "families" for more accuracy; allocation of costs to commuters & freight
  - Jointly developed with US DOT Volpe National Transportation Systems Center
  - Incorporates analysis of "capital charge"

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Computation of Route-Specific State Payments Under Section 209

- State payment has two components:

Operating Charge

(Direct Costs + Proportionate Shared Costs) – Passenger Related Revenue

Capital Charge

- Direct Costs
  - "Costs incurred only for the benefit of that route"
  - Direct labor and other direct costs
- Shared Costs
  - "Costs incurred for the common benefit of more than one route"
  - Proportionate share based on factors that reasonably reflect relative use
  - Policy determination among the states and Amtrak:
    - Cost categories to be established
    - Methods to use for allocation
- Passenger-Related Revenue
  - Ticket, Food & Beverage
  - Treatment of through revenue in extensions of NEC spine
- Capital Charge
  - Cost for asset replacement

Key Milestones Toward a New Policy—Capital Charge

- Volpe Center finalizing capital charge to be added to APT – data available June 30
- Capital charge will equalize effects of different financing arrangements for similar assets/equipment
  - Example without capital charge: one Amfleet coach is owned; another is leased at a low interest rate; another is leased at a high interest rate
- Components of capital charge include acquisition expense; useful service life; interest rate
  - Example with capital charge: all users of Amfleet coaches charged same capital charge
  - Also, working capital balances required to support larger operations
- Where states own equipment or have financed capital projects, capital charge will be reduced accordingly
- APT is <u>starting point</u> of capital charge—<u>details</u> to be worked out

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National Meeting, April 20-21 Chicago

- Presented, discussed text of PRIIA Section 209
- Amtrak Finance presented APT
- Introduced draft Policy "A" proposal as starting point for discussion
  - Operating support similar to existing State pricing policy
  - States become responsible for current "system" corridors
  - Awaiting capital charge data from Amtrak Finance/Volpe Center (expected June 30)
- Regional meetings with State partners
  - Review financial results of routes under new APT system
  - Present pro forma State support cost under Policy A (Operating only to date)
  - Discuss alternatives to Policy A

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Schedule of Meetings with State Partners

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
Mid-Atlantic/NE Meeting	CT, NY, PA	To be scheduled
Southeast Regional Meeting #2	AL, FL, GA, LA, MS	Scheduled – New Orleans, LA July 14 (Intercity Passenger Rail Transportation Summit)

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Today's Discussion

- History of State-Supported Service
- PRIIA Section 209 text
- Section 209 Implementation: Actions Completed
- Next Steps, Key Questions

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Next Steps

- 2nd National Meeting—to be scheduled
  - Review of Proposed Policies in draft form
- Review of Proposed Section 209 pricing with Amtrak Board of Directors, July 28-29, 2010
- Submission of Letters of Concurrence to DOTs—Oct/Nov
  - State-specific meetings as required

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Opportunities and Challenges

- Opportunities
  - Section 209 state support structure will provide framework for state planning for intercity passenger rail
  - Provides a basis for supporting capital grant applications to the FRA—as the question of operating support will be addressed
  - Contributes to system viability and maturation
  - Simplifying the process while capturing the essence of the support payment process
    - Ease of implementation
    - Ease of audit
    - Ease of billing
- Challenges
  - Risk apportionment—who takes the forecasting risk and for what elements?
  - Gaining concurrence

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Key Questions

1. How to divide Shared Costs between Amtrak and States
2. How to divide Capital Charge between Amtrak and States
3. Contract term – FRA requirements for long-term operating commitments accompanying capital grants.
4. Incorporation of capital contributions from states—specific contracts with offsets for state-furnished funding for state of good repair/replacement/improvement of Amtrak-owned assets used in state supported service
5. Management of the input process—what service changes expected and when; what are implications?
6. Risk sharing/structure of contracts
7. If not every state agrees, what happens?
8. How can stakeholders ensure all of rail's benefits are measured and included when comparing against costs?

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Today's Discussion

- History of State-Supported Service
- PRIIA Section 209 text
- Section 209 Implementation: Actions Completed
- Next Steps, Key Questions
- Appendix: Additional APT information

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Appendix: APT – Overview of Improved Process

Cost Type	Examples	How Handled in APT
Direct, train-specific data	• Train & engine labor • On-board svc labor • Host RR payments	•Assigned directly to a train
Direct, no train-specific data	• Fuel & power • Turnaround servicing • Route stations	• Assigned or allocated to trains • If allocated, a statistic is used
Shared costs	• Shared stations • Maintenance of way • General & administrative	• Allocated to relevant trains (including commuter and freights) based on a statistic
Capital charge	• Rolling stock • Infrastructure	• APT calculates capital charge (described later in presentation)

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Appendix: Examples of Direct, Shared, and Capital Costs

Direct Costs (1)		Shared Costs (2)	Capital Costs (2)
Direct Labor	**Other Direct**		
• Train & Engine Crew Labor • On Board Service Labor and Support	•Host RR Maintenance & Incentives •Fuel and Power •Commissary •Car & Loco Maintenance and Turnaround •Direct Advertising •Commissions •Reservations and Call Centers •Customer Concession (Passenger Inconvenience) •Connecting Motor Coach •Stations – Route	•Stations – Shared •MOE Supervision, Training and Overhead •MOW Support •Yard Operations •Marketing and Distribution •Police, Environmental, and Safety •T&E Overhead and Operations Management •Utilities •General and Administrative	•Rolling stock •Stations •Amtrak-owned ROW •Maintenance Facilities •Technology & Systems

1) Required charge under Sec. 209

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

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Exhibit G

Amtrak State Partnerships
PRIIA Section 209 Pricing Discussion

National Meeting

August 17, 2010

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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

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Schedule of Meetings with State Partners

Meeting	Attendees	Status
National Meeting	13 current/potential State partners, FRA, AASHTO, States for Passenger Rail	Complete – Chicago, IL April 20-21
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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

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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

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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*

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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

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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

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Today's Discussion

- Review of Situation to Date
- Review and Discussion of State Reactions and Concerns
  - *See accompanying presentation*
- Summary of Presentation to Amtrak Board of Directors
- Next Steps

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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

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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

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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

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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

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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

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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

Declaration of Maximilian R. Johnson - Exhibit G

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

Declaration of Maximilian R. Johnson - Exhibit G

Capital Charge

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

Declaration of Maximilian R. Johnson - Exhibit G

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

Declaration of Maximilian R. Johnson - Exhibit G

Exhibit H

Declaration of Maximilian R. Johnson - Exhibit H

PRIIA Sec 209
Questions from States

Section 209 National Meeting, August 17
Chicago, IL

PRIIA Interpretation

- Question (Comment)
  - We disagree with your interpretation of which routes will be affected by PRIIA Section 209.
- Response
  - We have reviewed PRIIA Section 209 with Amtrak's Law Department and believe the routes specified in Appendix B of the draft policies are affected.

Declaration of Maximilian R. Johnson - Exhibit H

APT

- Questions
  - Is the national meeting premature, as the detailed questions about APT miscoding and allocation rules raised in regional meetings have not yet been resolved? Is the next step more appropriately another set of regional meetings to present the cleaned-up APT and financial estimates of proposed policies?
  - Given that questions about allocation rules have not yet been resolved, and we don't have a "clean" financial system to work from, how will Amtrak be able to provide the states with the financial impact for each policy option? If Amtrak can give the States financials based on sound APT info, we might not need to do another set of regional meetings to resolve APT.
  - Given that a methodology is approved, the challenge remains to be the correct and transparent allocation of costs to the states. More progress needs to be made on this front in order for me to concur with the draft pricing policy.
- Response
  - We believe a national conversation will be helpful at this stage
  - We commit to continuing regional meetings (in-person, telecon, and/or webinar) until APT questions have been resolved
  - Policy recommendation: Introduce a review process for selected APT cost allocation rules based on alternate proposals

Declaration of Maximilian R. Johnson - Exhibit H

Process

- Questions (Comments)
  - In my discussions with Amtrak staff, they are developing options to the fully allocated APT costs for consideration by States. These options and any background info and reasoning need be provided ahead of time.
- Response
  - We appreciate the benefits of reviewing information in advance and will make our best efforts to provide it as soon as possible
  - Board of Directors recommended policy e-mailed shortly after July meeting, but financial information is taking time to prepare
  - Capital charge information is currently under review within Amtrak

Declaration of Maximilian R. Johnson - Exhibit H

Capital Charge

- Question (Comment)
  - Amtrak needs to provide cleaned-up version(s) of APT costs for each of the corridor services. These costs should include the infamous "Capital" costs, which I am not sure if Amtrak has been able to completely address at this moment. I am not sure but I do not think ALL impacted states have received these initial APT costs for their Amtrak corridor services.
  - I am not comfortable agreeing to one part of the methodology without some baseline understanding of the capital charge.
- Response
  - Some routes still have outstanding APT adjustments that are in process
  - Capital costs released by Finance/Volpe in early August, are in an internal review process, and will be shared and discussed with States in coming weeks
  - Affected States have received an initial APT workbook describing Policy "A"

Declaration of Maximilian R. Johnson - Exhibit H

Changes to Shared Costs

- Question
  - Will there be a formal notification process to the states when changes occur in some of the indirect more subjective costs as a result of service changes that are not in the state's control? (Example: Elimination of a particular service through CUS would not necessarily eliminate some fixed costs at CUS and those fixed costs would be shared with the remaining states)
- Response
  - Regional Policy & Development staff regularly review APT reports and investigate anomalies, variances, and exceptions
  - P&D will communicate changes to Shared Costs as part of regular contact with State partners

Declaration of Maximilian R. Johnson - Exhibit H

FRA Report, APT

- Question
  - Since the FRA Report on APT was issued in 2009, has Amtrak made any changes to the costing methodologies?
- Response
  - Theory of APT as described in report has not materially changed
  - Individual rules are constantly being reviewed and updated based on changes to and reviews of operations
  - Amtrak is developing a process where rules and proposed changes are reviewed at multiple levels
    - Policy recommendation: Rules can be reviewed within Amtrak and referred to FRA if necessary, at the request of States

Declaration of Maximilian R. Johnson - Exhibit H

Allocations Between Long Distance, Corridor Services

- Question (Comment)
  - Ensure that there is proper allocation between shared equipment, crews, facilities between State-Supported Routes and the Long Distance Routes
- Response
  - We are currently reviewing the allocation of shared facilities across routes – both for Long Distance and State-Supported
  - Debatable rules in current allocation methodology is one reason we are proposing a reduction of Shared Costs as a pricing principle

Declaration of Maximilian R. Johnson - Exhibit H

Customer Concession

- Question (Comment)
  - We are concerned with the allocation of Customer Concession (the passenger inconvenience charge). We don't want to be paying more for bad service on another route, or to be paying for passenger inconvenience that results from actions out of our control
- Response
  - Future adjustments to cost recording hopefully will support train-based coding of Customer Concession charges
  - Shifting burdens of Customer Concession charges is one reason we are proposing a reduction of Shared Costs as a pricing principle

Declaration of Maximilian R. Johnson - Exhibit H

Police, Environmental, and Safety

- Question (Comment)
  - We are concerned with the allocation of Police, Environmental and Safety to the route.
- Response
  - Today, increased nationwide Amtrak police programs are a cost of doing business in transportation
  - As in prior discussions, we are proposing a reduction of Shared Costs as a pricing principle

Declaration of Maximilian R. Johnson - Exhibit H

Division of Shared Costs Between States and Amtrak

- Question
  - Is there an assumption that States should take on the full subsidy of a route? Is there any statute language to point to on this issue? Are any States attempting to negotiate cost sharing? In addition, please provide official correspondence or e-mails from Amtrak regarding process and cost estimates.

- Response
  - Current Board policy proposal calls for only 75% of Shared Costs to be supported by States
  - Sec 209 calls for States to pay "costs incurred only for the benefit of that route" and "a proportionate share" of "costs incurred for the common benefit of more than 1 route" – not full subsidy
  - Some States have made policy recommendations; Amtrak must negotiate with <u>all</u> States
  - Amtrak will communicate policy updates and financial impacts via e-mail, similar to recent Board policy proposal

Declaration of Maximilian R. Johnson - Exhibit H

Adjustments to APT & Policy Options

- Question
  - Are there options on the table that would impact these cost estimates or the distribution of costs among the States?
- Response
  - State support estimates will change for the following reasons:
    - Changes in route level of service & revenue will affect a route's APT costs, both Direct and Shared
    - Refinements of APT allocations will affect routes' fully-allocated costs
    - Expansion of service may reallocate and lower individual routes' share of Shared Costs
    - Cuts to service may reallocate and increase individual routes' share of Shared Costs
    - We are looking for further policy suggestions from the States

Declaration of Maximilian R. Johnson - Exhibit H

Network Benefits

- Question
  - Is there an effort to cost share operating/capital costs of State-Supported Routes with Amtrak's other routes – State Supported Routes benefit Amtrak's overall Long Distance trains and NEC Corrdior Service. Is asking for an 80-20 split of the real cost negotiable?
- Response
  - Amtrak interprets statute to call for full State responsibility of Direct Costs, some portion of Shared Costs
  - Amtrak Board proposing a 75-25 split of Shared Costs, to encourage system growth
  - Through network effects, NEC, Long Distance, and State-Supported Corridor trains benefit each other

Declaration of Maximilian R. Johnson - Exhibit H

Long Distance Trains

- Question
  - Can Amtrak take into consideration in applying this new costing methodology states which do not benefit from any of Amtrak's Long Distance train service and would be forced to pay all intercity passenger service in our state? Are there any plans to rethink how Amtrak delivers their existing long distance service?
- Response
  - PRIIA Section 209 does not call for consideration of long distance service relative to corridor service
  - PRIIA Section 210 requires continual review of Long Distance trains – difficult to predict outcomes at this point
  - Past decisions about Long Distance trains made prior to creation of PRIIA

Declaration of Maximilian R. Johnson - Exhibit H

Multi-State Issues

- Question
  - Amtrak indicates that for corridor trains that cross state lines but do not use the NEC "spine", 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. What information is Amtrak referring to and has any of this information been shared with the other states in multi state-corridors?

- Response – Information available/provided includes:
  - Division of route miles by State
  - Boards/deboards and gross revenue by station and city pair
    - Share of ridership, revenue originating/terminating by State
  - This information has periodically been calculated for existing multi-state routes

Declaration of Maximilian R. Johnson - Exhibit H

Transitioning to New Policy, Service Changes

- Question
  - One of the difficulties with this exercise is separating the process to agree on a new costing methodology from the individual impact on a particular state… we will need to work very closely with Amtrak to redefine the existing intercity passenger rail services… as a result of the impact of the new costing methodology.
- Response
  - Amtrak will work with partners to develop and explore alternate scenarios for passenger rail services under the new methodology.
    - Example: Service planning for new Virginia services to Richmond, Lynchburg
- Question
  - Previously Amtrak was experimenting with lighter maintenance/cleaning activities for a route. Is this still the case and if so has this been reflected in a reduction of cost for this service?
- Response
  - With assistance from State partners, Amtrak will evaluate options for the most cost-effective service

Declaration of Maximilian R. Johnson - Exhibit H

Infrastructure

- Question
  - How is the issue of State investments in current infrastructure handled and credited?
- Response
  - Components of capital charge are still being developed
  - In general, past State investments in asset classes will be credited against any capital charges for that asset class, to the extent that the asset retains a positive net book value

Declaration of Maximilian R. Johnson - Exhibit H

Infrastructure

- Question
  - If one line has seen total disinvestment and another is in top shape, is the obligation for capital improvements the same?
- Response
  - Capital charge is based on existing infrastructure
    - Assets with higher value will generate a higher capital charge
    - Extent of capital charge recovery from States still to be determined
  - For potential future capital improvements:
    - If a line is owned by a Host Railroad, capital improvement options to be discussed between State, Host Railroad, and Amtrak
    - If a line is owned by Amtrak, capital improvement options to be discussed between State and Amtrak - Amtrak's ability to contribute capital spending is likely to be limited

Declaration of Maximilian R. Johnson - Exhibit H

Infrastructure & Capital

- Question
  - When the Capital Charge assessment is collected how do we know it will be spent on the specific assets in the state?
- Response
  - Capital Charges under Section 209 are payments to Amtrak for use of Amtrak's assets
  - Rolling stock is typically used across multiple states; capital charge will reflect a State's proportionate usage of specific equipment types
  - Fixed assets are identified by a location code

Declaration of Maximilian R. Johnson - Exhibit H

Host Railroad Issues

- Question
  - We believe that there should be more transparency of the Host Railroad charges (Maintenance of Way and Performance incentives). This is especially critical where the state is putting up funds through HSIPR grants, etc.
- Response
  - MOW costs are developed as avoidable costs for a route through negotiations with Host Railroads
    - Confidentiality agreements control what information can be released publicly
    - We will explore increased transparency within the limits of confidentiality agreements
  - Performance incentives are billed by Host Railroads with a train number, and are reviewed and reconciled by Transportation dept.
  - Under Section 207, Host Railroad payments will be adjusted to provide more specific detail

Declaration of Maximilian R. Johnson - Exhibit H

International

- Question
  - What is status of discussion of routes that have international destinations?
- Response
  - International routes currently have widely different operating scenarios
    - VIA crews assume train operation, costs at Canadian border
    - Amtrak crews operate train in Canada, and are charged accordingly by Canadian host railroads and terminals
  - Border Patrol issues
  - Amtrak Policy & Development is here to partner with States & Federal government to improve issues associated with international passenger rail
  - In summary, costs generated from international operations are applied to routes

Declaration of Maximilian R. Johnson - Exhibit H

Agreements - Cost Forecasting

- Question (Comment)
  - As with our other vendors and service partners, we require back-up and documentation of expenses and subsequent fees prior to approving payment or agreeing to contracted amount for goods/services. Please add the following language to the policy: "Amtrak will provide to States, no later than 90 days prior to the beginning of the next contract period, appropriate documentation to verify the costs for the prior 12 month period, and then work collaboratively to determine the appropriate costs for the following contract period."
- Response
  - Amtrak will continue existing practice of working with State partners throughout a contract period to regularly share, review, and analyze APT financial results in preparation for the next contract period
  - A typical State-supported route's costs will be made up of thousands of accounting entries – this can be an extensive process

Declaration of Maximilian R. Johnson - Exhibit H

Agreements – Risk Sharing

- Questions (Comments)
  - Assessing an additional charge to a fixed price is not "Risk Sharing", it's providing a financial pad for Amtrak.
  - What happens if the cost of something DECREASES? Is there a proposed mechanism for a refund to the States?
- Response
  - Amtrak is prepared to quote a fixed price without an additional charge for cost items it has a high ability to manage and control (Service Fee items)
  - Host railroad incentives, fuel, and revenue have experienced high variability in recent years – both favorable and unfavorable
    - Any party absorbing risk for these high-variability items must budget conservatively – therefore, additional charge
  - If cost decreases, party absorbing the risk receives benefit and the reverse is true – if costs increase the party accepting the risk takes the cost overrun

Declaration of Maximilian R. Johnson - Exhibit H

Inflation, annualization

- Question
  - Can Amtrak now show FY 10 numbers (or good estimates for FY 10) for these routes?
- Response
  - APT workbooks discussed in regional meetings are 6 months of actual FY10 data
  - 9 months of APT data (annualized) will be available soon, pending resolution of allocation issues
- Question
  - How does Amtrak decide on an inflation rate? Is it already included in the numbers on the table or does it need to be added to that amount?
- Response
  - Inflation developed by Amtrak Finance based on analysis of American Association of Railroads (AAR) projections
  - Numbers presented are FY10 actuals, annualized based on YTD actuals

Declaration of Maximilian R. Johnson - Exhibit H

Implementation, Budgeting

- Question
  - To help States with their development of future year budgets, each option presented should present the total costs, revenues, and expected state contract/budget over the three-year implementation of the Sec 209 (FY12-FY13-FY14).
- Response
  - Amtrak will provide a schedule combining the proposed implementation phase-in and estimated inflation adjustments to the FY10 data

Declaration of Maximilian R. Johnson - Exhibit H

Exhibit I

Declaration of Maximilian R. Johnson - Exhibit I

Amtrak State Partnerships
PRIIA Section 209 Pricing Discussion

SCORT National Meeting
Jacksonville, FL
September 21, 2010

John Bennett
AVP, Policy, Standards and Integration

Today's Discussion

- Summary of Requirement and Updates
- Capital Charge
- Next steps

Declaration of Maximilian R. Johnson - Exhibit I

Section 209 text: (a) General

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

- Passed Oct 16, 2008:
  2 years = Oct 16, 2010
- Amtrak Board of Directors' responsibility
- "in consultation with": collaborative process
- Single, nationwide, standardized methodology: all corridors treated equitably

Declaration of Maximilian R. Johnson - Exhibit I

Section 209 text: (a) (1) & (2)

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

- Passed Oct 16, 2008: 5 years = Oct 16, 2013
  - Transition period
- "allocates" – Amtrak Performance Tracking (APT)
- "costs incurred only for the benefit of that route" = **Direct Costs**
- "costs incurred for the common benefit of more than 1 route" = **Shared Costs**

Declaration of Maximilian R. Johnson - Exhibit I

Section 209 text: (b) Revisions

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

- This will be a "living" policy
  - Changes due to continuing refinements of Amtrak accounting system

Declaration of Maximilian R. Johnson - Exhibit I

Section 209 text: (c) Review

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year after the Board's determination of the appropriate methodology.

- Failure results in the development and imposition of a formula by the Surface Transportation Board (STB)
- §24904(c) of Title 49:
  - "…the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation"
- If Oct 16, 2010 voluntary deadline missed, then 1 year to implementation after STB ruling

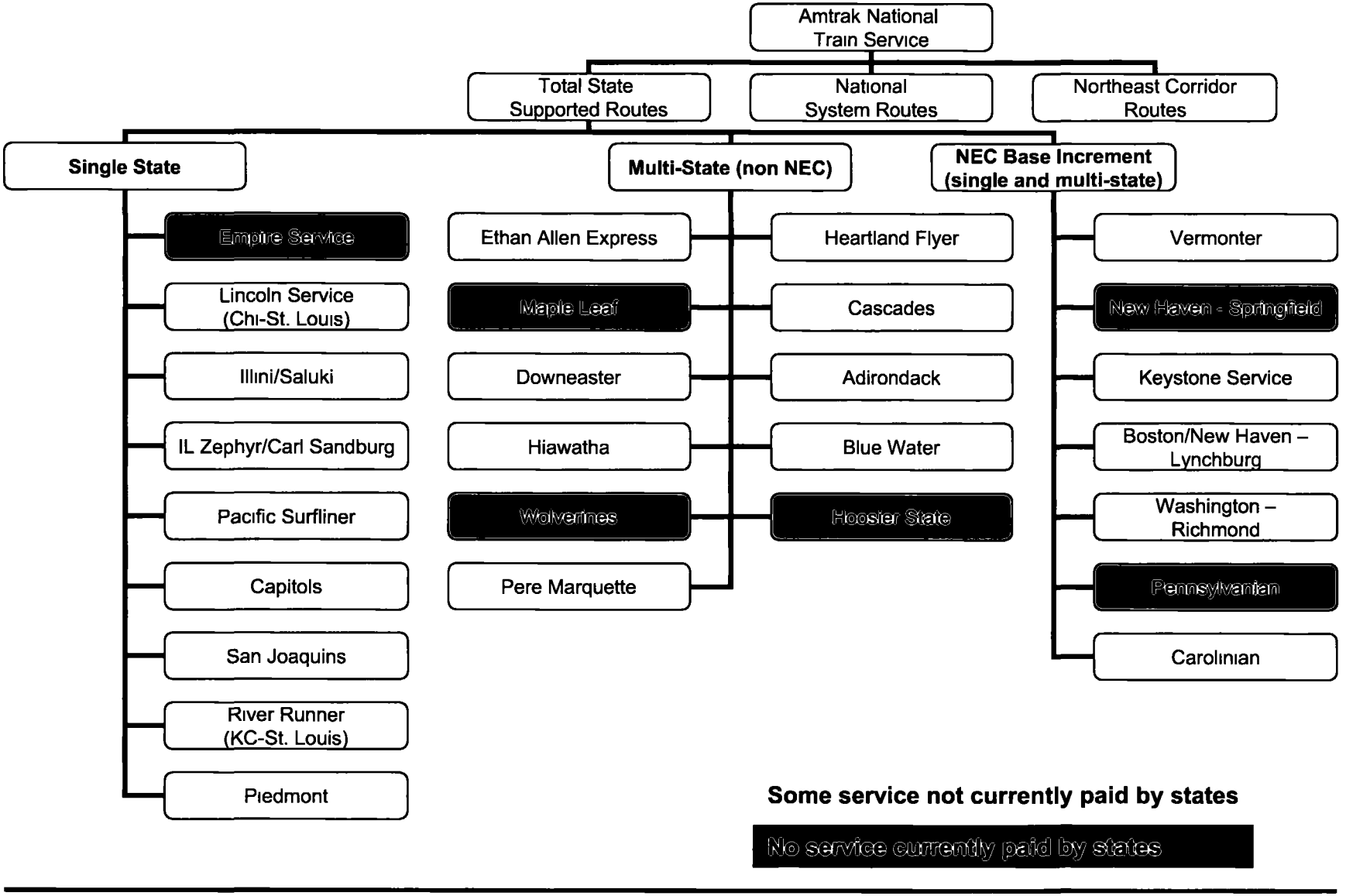
Section 209 text: (d) Chapter 244 Funds

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

- Chapter 244, Title 49:
  - Capital grants can be used to pay capital charges

Declaration of Maximilian R. Johnson - Exhibit 1

Segmentation of Amtrak's National Train Service



Declaration of Maximilian R. Johnson - Exhibit I

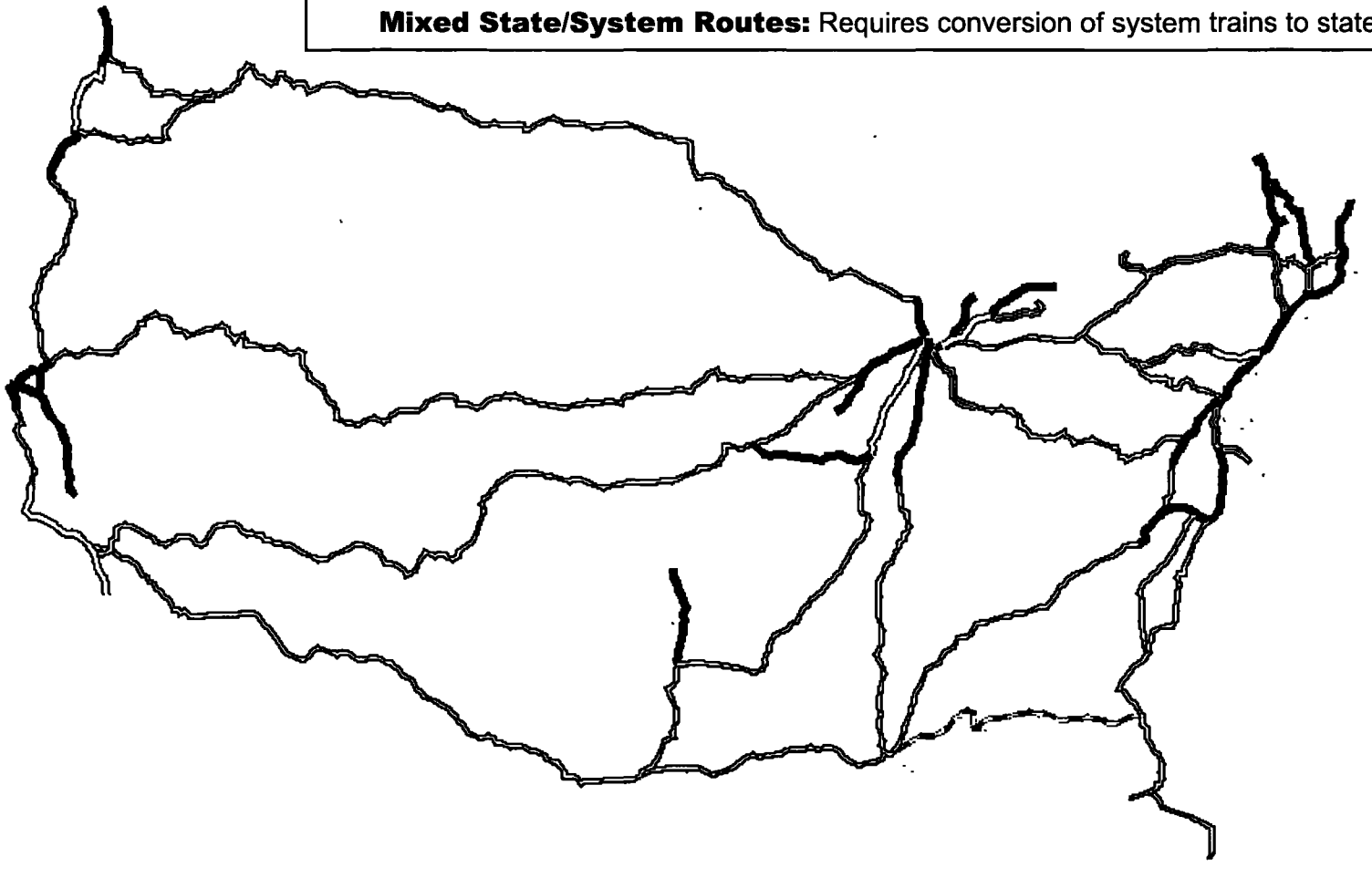
Corridor Services – Impacted Routes

NEC Spine: Excluded from Section 209

State Supported Routes: Require consistent agreements under Section 209

System Corridor Routes: Require new agreements, no state support in place

Mixed State/System Routes: Requires conversion of system trains to state support



Schedule of Meetings with State Partners

Meeting	Attendees	Location, Dates
National Meeting #1	13 current/potential State partners, FRA, AASHTO, States for Passenger Rail	Chicago, IL April 20-21
New England Regional Meeting	MA, NH, ME, RI, VT, FRA, NH Rail Transit Authority	Portsmouth, NH May 10-11
Pacific NW Regional Meeting	OR, WA	Portland, OR May 26-27
California Regional Meeting	CA (CalTrans, CCJPA)	Sacramento, CA June 2-3
Midwest Regional Meeting	IL, MI, MO, OK, TX, WI	Chicago, IL June 9-10 (WI June 24)
Southeast Regional Meeting #1	NC, SC, VA	Raleigh, NC June 22
Southeast Regional Meeting #2	GA, LA, MS (AL, FL invited)	New Orleans, LA July 14 (Intercity Passenger Rail Transportation Summit)
Mid-Atlantic/NE Meetings	NY, PA	July 19-20
	CT	August 10
National Meeting #2	All States invited in person or via webinar	Chicago, IL August 17

Declaration of Maximilian R. Johnson - Exhibit I

PRIIA Section 209 – Where We Are Now

- 25 days until October 16
- Outstanding questions from many States
  - Allocations in Amtrak Performance Tracking (APT)
  - Capital Charge—calculation and allocation
- Amtrak recognizes that there is still work to be done
  - If no agreement, what happens on October 17?

Declaration of Maximilian R. Johnson - Exhibit I

Current Challenges

- August 18 Letter from SCORT / S4PR to Senator Rockefeller and Representative Oberstar, from Secretaries Busalacchi and Conti
  - "APT system has significant progress to make before states have confidence in the numbers being generated"
  - "Amtrak has not yet shared its capital cost allocation with the states"
  - "process was started too late to… be completed by the October 16, 2010 deadline"
- Other issues:
  - Continued slow economic recovery creating difficult budget environment
  - Upcoming elections of many State Governors creates climate of uncertainty

Declaration of Maximilian R. Johnson - Exhibit I

Amtrak's Plan

- After October 16, continue with the current process
  - Round of discussions with States to explain/discuss capital and other cost information
  - Seek a set of counterproposals from the States or their designated negotiating team on policy options within the framework of Sec 209
- STB involvement would only be triggered only by a petition for relief from an involved party
  - It is neither party's best interest to invoke STB involvement
  - Amtrak and the States need to continue working on this

Declaration of Maximilian R. Johnson - Exhibit I

Amtrak Performance Tracking (APT) System

Accomplishments

- APT is working as designed
- More robust, more transparent than predecessor RPS

Challenges

- As a new system, APT has a "punch list"
- APT will always require maintenance as operations continue to evolve

- Where we know there are potential adjustments on routes, we have and will continue to inform affected States
- In most cases, we believe the "confidence interval" around the APT estimate is small enough for planning purposes

Declaration of Maximilian R. Johnson - Exhibit I

Today's Discussion

- Updates – Where We Are, Proposed Plan
- Capital Charge
- Next steps

Declaration of Maximilian R. Johnson - Exhibit I

Capital Charge Background

- Three types of capital assets in Amtrak capital asset register
  - **Equipment** (Rolling Stock):
    - By type (Amfleet, Superliner, road & switch locos, MoW equip, etc.)
    - Passenger equipment allocated in APT by units used / route
    - Some States own some/all of their own equipment, are charged less
  - **Track:** Rails, ties, ballast, interlockings
    - Includes yard and shop track to be allocated nationally
    - Original entries in fixed asset register likely did not foresee detailed allocation
  - **Road & Land:** Buildings, bridges, computers, offices, stations, etc.
    - Includes headquarters, overhead expense to be allocated nationally
    - Original entries in fixed asset register likely did not foresee detailed allocation
- Due to periodic overhauls and capitalization, most assets have some value – few fully-depreciated assets

Declaration of Maximilian R. Johnson - Exhibit I

Capital Charge Strengths & Challenges

- Equipment - Strength
  - Captured in detail by financial and operating systems
  - Train consists are widely known, easily auditable
  - Depreciation is proxy for a lease payment
  - APT charges appear competitive with other suppliers
- Track, Road & Land - Challenges
  - Depreciation is non-cash expense – funds were generally spent when asset was placed in service
  - Some assets lack detailed descriptions necessary for allocation – questions about asset detail will require manual research
  - If capital charge from States treated as revenue, funds will be commingled with operating cash, not set aside for future capital expenditure

Declaration of Maximilian R. Johnson - Exhibit I

Capital Charge Draft Proposal

- Set aside capital charge payments in State-specific Capital Reserve Funds, with future expenditures to be determined jointly between Amtrak and the individual States
  - Similar joint-benefit model in place with NEC commuter operations
  - Gives States voice, visibility into capital expenditures
- Exclude APT interest component, equipment in storage, MoW equipment
- State-specific Capital Charge reports e-mailed September 10

Declaration of Maximilian R. Johnson - Exhibit I

Today's Discussion

- Updates – Where We Are, Proposed Plan
- Capital Charge
- Next steps

Declaration of Maximilian R. Johnson - Exhibit I

Next Steps

- Further discussions with States to refine operating data, explain details of capital charge and seek consensus
  - State-specific meetings to discuss individual State questions
  - National meeting to suggest further policy refinements – leading to an agreement
- Meet with designated state negotiating team on policy options
- Continue to seek counter-offers from States

Declaration of Maximilian R. Johnson - Exhibit I

Exhibit J

AMTRAK

October 27, 2010

Frank J. Busalacchi
Chair, States for Passenger Rail Coalition
Secretary
Wisconsin Department of Transportation
PO Box 7910
Madison, Wisconsin 53707-7910

Eugene A. Conti Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary
North Carolina Department of Transportation
Transportation Building
One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Busalacchi and Conti:

In recent months, Amtrak and its current State partners (the States) represented by your entities, the Standing Committee on Rail Transportation, American Association of State Highway and Transportation Officials (AASHTO) and the States for Passenger Rail Coalition (S4PR), have made substantial efforts toward fulfilling the requirements of Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). Nevertheless, for a variety of reasons we have not met Section 209's requirements that we "develop and implement a single, nationwide standardized methodology . . ." "[w]ithin 2 years after the data of enactment of this Act," as called for in subsection (a). Based on PRIIA's enactment on October 16, 2008, the deadline of October 16, 2010 has passed.

Subsection (c) of Section 209 states that if we do not meet this deadline, "the Surface Transportation Board [STB] shall determine the appropriate methodology . . ." and gives the parties the ability to seek resolution of this matter before the Board. Rather than exercise this right at this time, we share a common belief that the States and Amtrak should continue the work currently in progress to collaboratively determine a methodology for Section 209. We propose agreeing to continue this work for a period of six (6) months until April 16, 2011.

Amtrak recognizes that the States represented by your groups are individual entities, but they have assembled a Working Group under your auspices to represent the interests of the States with respect to Section 209 issues. Amtrak's management team, representing the Amtrak Board, and the working group will begin discussions this month both on the substantive issues relating to Section 209 and to establish a process and schedule to guide the negotiations.

Prior to April 16, 2011, we agree that Amtrak and the States represented by your two organizations may decide to approach the STB for assistance in Section 209 matters but shall agree to limit this action to instances of mutual decision, assuming the parties continue to work in good faith towards the completion of a new methodology under Section 209. If at the end of the 6 month period described in this letter, Amtrak and the States agree that there remain significant and material technical obstacles to determining a methodology, they may consider a limited extension of this period.

To indicate your agreement with this proposal described above, please sign this letter and return it to the above address. We look forward to working collaboratively with you and your organizations on this important process.

Sincerely,

Joseph H. Boardman
President and Chief Executive Officer

cc Daniel R. Elliott III, Chairman, Surface Transportation Board
Section 209 Working Group
David Kutrosky, CCJPA
Patricia Quinn, NNEPRA
Patrick Simmons, NCDOT
Kevin Page, VA-DRPT
Beth Nachreiner, WisDOT

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____

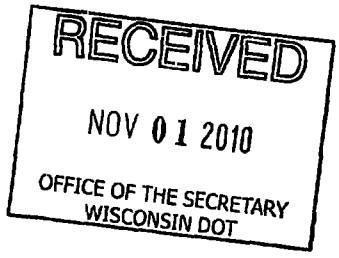
Exhibit K

AMTRAK 100444
DPBF

Joseph H. Boardman

AMTRAK

October 27, 2010



Frank J. Busalacchi
Chair, States for Passenger Rail Coalition
Secretary
Wisconsin Department of Transportation
PO Box 7910
Madison, Wisconsin 53707-7910

Eugene A. Conti Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary
North Carolina Department of Transportation
Transportation Building
One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Busalacchi and Conti:

In recent months, Amtrak and its current State partners (the States) represented by your entities, the Standing Committee on Rail Transportation, American Association of State Highway and Transportation Officials (AASHTO) and the States for Passenger Rail Coalition (S4PR), have made substantial efforts toward fulfilling the requirements of Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). Nevertheless, for a variety of reasons we have not met Section 209's requirements that we "develop and implement a single, nationwide standardized methodology..." "[w]ithin 2 years after the data of enactment of this Act," as called for in subsection (a). Based on PRIIA's enactment on October 16, 2008, the deadline of October 16, 2010 has passed.

Subsection (c) of Section 209 states that if we do not meet this deadline, "the Surface Transportation Board [STB] shall determine the appropriate methodology...." and gives the parties the ability to seek resolution of this matter before the Board. Rather than exercise this right at this time, we share a common belief that the States and Amtrak should continue the work currently in progress to collaboratively determine a methodology for Section 209. We propose agreeing to continue this work for a period of six (6) months until April 16, 2011.

Amtrak recognizes that the States represented by your groups are individual entities, but they have assembled a Working Group under your auspices to represent the interests of the States with respect to Section 209 issues. Amtrak's management team, representing the Amtrak Board, and the working group will begin discussions this month both on the substantive issues relating to Section 209 and to establish a process and schedule to guide the negotiations.

AMTRAK

Prior to April 16, 2011, we agree that Amtrak and the States represented by your two organizations may decide to approach the STB for assistance in Section 209 matters but shall agree to limit this action to instances of mutual decision, assuming the parties continue to work in good faith towards the completion of a new methodology under Section 209. If, at the end of the 6 month period described in this letter, Amtrak and the States agree that there remain significant and material technical obstacles to determining a methodology, they may consider a limited extension of this period.

To indicate your agreement with this proposal described above, please sign this letter and return it to the above address. We look forward to working collaboratively with you and your organizations on this important process.

Sincerely,

Joseph H. Boardman
President and Chief Executive Officer

cc. Daniel R. Elliott III, Chairman, Surface Transportation Board
Section 209 Working Group: David Kutrosky, CCJPA
Patricia Quinn, NNEPRA
Patrick Simmons, NCDOT
Kevin Page, VA-DRPT
Beth Nachreiner, WisDOT)

ACCEPTED AND AGREED:

Date: 11/9/10

By: Frank J. Busalacchi

Title: Secretary

Declaration of Maximilian R. Johnson - Exhibit K

Exhibit L

Declaration of Maximilian R. Johnson - Exhibit L

209 State Working Group

Review of Direct & Shared Costs

Ideas for Moving Forward

January 5, 2011

Review of Overall Route Costs

- APT FY2010 numbers for 24 routes have been evaluated.
- Few consistencies or trends
- Numbers are varied – but need to be further "scrubbed" by states & Amtrak.

GENERAL DEFINITIONS

- Direct Costs + Shared Cost=Net Cost
- Net Cost + 3rd Party Cost = Total Costs
- 3rd Party Costs =
  - Host RR MoW
  - Host RR Performance Payments
  - Fuel

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Review of Overall Route Costs

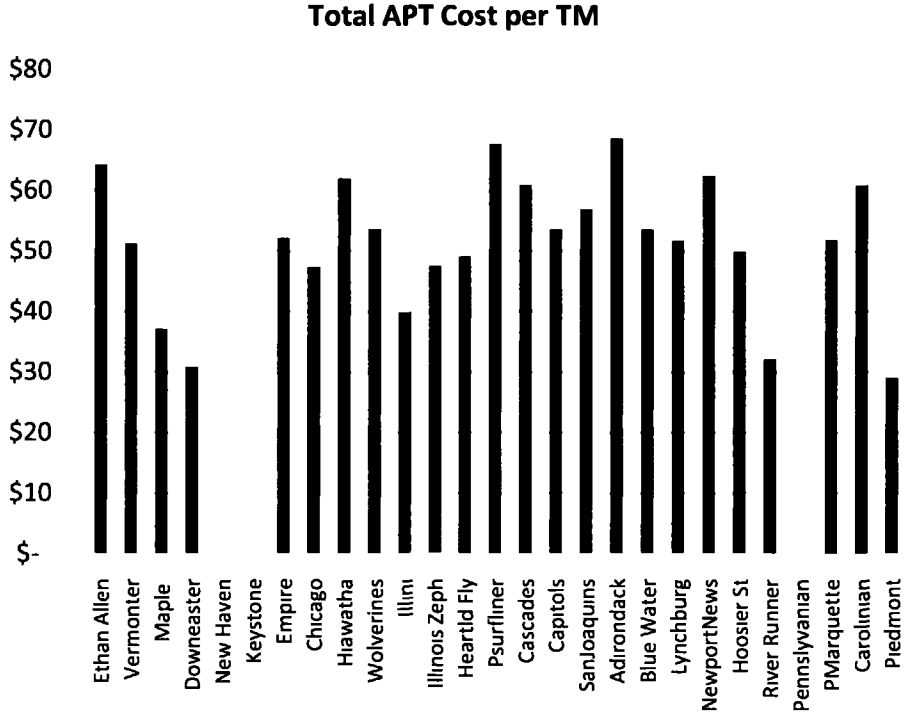
GENERAL RESULTS

Total Average Total Cost per Train Mile: $48.31

- Pacific Surfliner $67.69
- Downeaster $30.92

Total Average Net Cost per Train Mile: $40.52

- Pacific Surfliner $56.77
- River Runner $24.56



Direct & Shared Costs

- **Direct Costs**
  - 52% of Total Net Costs
    - San Joaquins 70%
    - Hiawatha 35%
  - Average Per TM: $21.24
    - San Joaquins: $32.43
    - River Runner: $13.56

- **Shared Costs**
  - 48% of Total Net Costs
    - Hiawatha 65%
    - SanJoaquins 30%
  - Average per TM : $19.28
    - Hiawatha: $35.01
    - Downeaster: $10.16
  - 91% of Direct Costs
    - Hiawatha 189%
    - SanJoaquins 43%

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State Opinions about Direct & Shared Costs

- **Direct Costs are easier for States to understand**
- Defendable
- Verifiable
- Direct Relationship to service provided
- Basis for Cost Metrics
- Can be 100% State Funded as long as amounts can be agreed upon

- **Shared Costs are a concern to States**
- Unable to Explain or Verify
- No way to control or impact
- Difficult to tie to service
- Apparently Random
- No Cost Containment
- Limited Funding Support
- Difficult to "sell back home" and defend costs

Declaration of Maximilian R. Johnson - Exhibit L

General Ideas for Moving Forward

- Focus should be on refining Direct Costs
- Modify Direct Cost Definition to include 2 levels of Direct Costs:
  - Incremental Direct Costs
    - "But For" Costs
  - Shared Direct Costs
    - Costs not which are not necessarily unique to a route, but which are an attributable cost
- Most Shared Cost Categories should be replaced with a Support Fee based as a percentage of Direct Costs:
  - Develop a single multiplier which may vary by route
  - Develop Category Specific multipliers which are consistently applied to a route, based on its type (system or non-system)

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CURRENT APT COST CATEGORIES

- DIRECT COSTS
  - T & E Crew Labor
  - OBS Labor & Support
  - Host RR MoW
  - Host RR Performance
  - Fuel & Power
  - Commissary Provisions & Management
  - Car & Locomotive Maintenance & Turnaround
  - Direct Advertising
  - Commissions
  - Reservations & Call Centers
  - Customer Concession
  - Connecting Motorcoach
  - Express Mail
  - Route Stations
- SHARED COSTS
  - Shared Stations
  - MoE Supervision, Training & Overhead
  - MoW Support
  - Yard Operations
  - Marketing and Distribution
  - Police, Environmental & Safety
  - T&E Overhead and Operations Management
  - Utilities
  - State G&A
  - Amtrak G&A

These are the APT Cost Categories as presented by Amtrak to the States.

Categories previously used by RPS have been removed.

APT COST CATEGORIES

- DIRECT COSTS
  - T & E Crew Labor
  - OBS Labor & Support
  - Host RR MoW
  - Host RR Performance
  - Fuel & Power
  - Commissary Provisions & Management
  - Car & Locomotive Maintenance & Turnaround
  - Direct Advertising
  - Commissions
  - Reservations & Call Centers
  - Customer Concession
  - Connecting Motorcoach
  - Express Mail
  - Route Stations
- SHARED COSTS
  - Shared Stations
  - MoE Supervision, Training & Overhead
  - MoW Support
  - Yard Operations
  - Marketing and Distribution
  - Police, Environmental & Safety
  - T&E Overhead and Operations Management
  - Utilities
  - State G&A
  - Amtrak G&A

First Recommendation as previously discussed:

Pull out & isolate 3rd Party Costs in a Direct Cost sub-category

Include Amtrak MoW as a 3rd Party Cost as well, to be calculated as other Host RR's calculate incremental maintenance costs

The next step is trying to figure out how to apply a multiplier to Shared Costs.

3rd PARTY COSTS

- Host RR MoW
- Host RR Performance
- Fuel & Power
- MoW Support

DIRECT COSTS

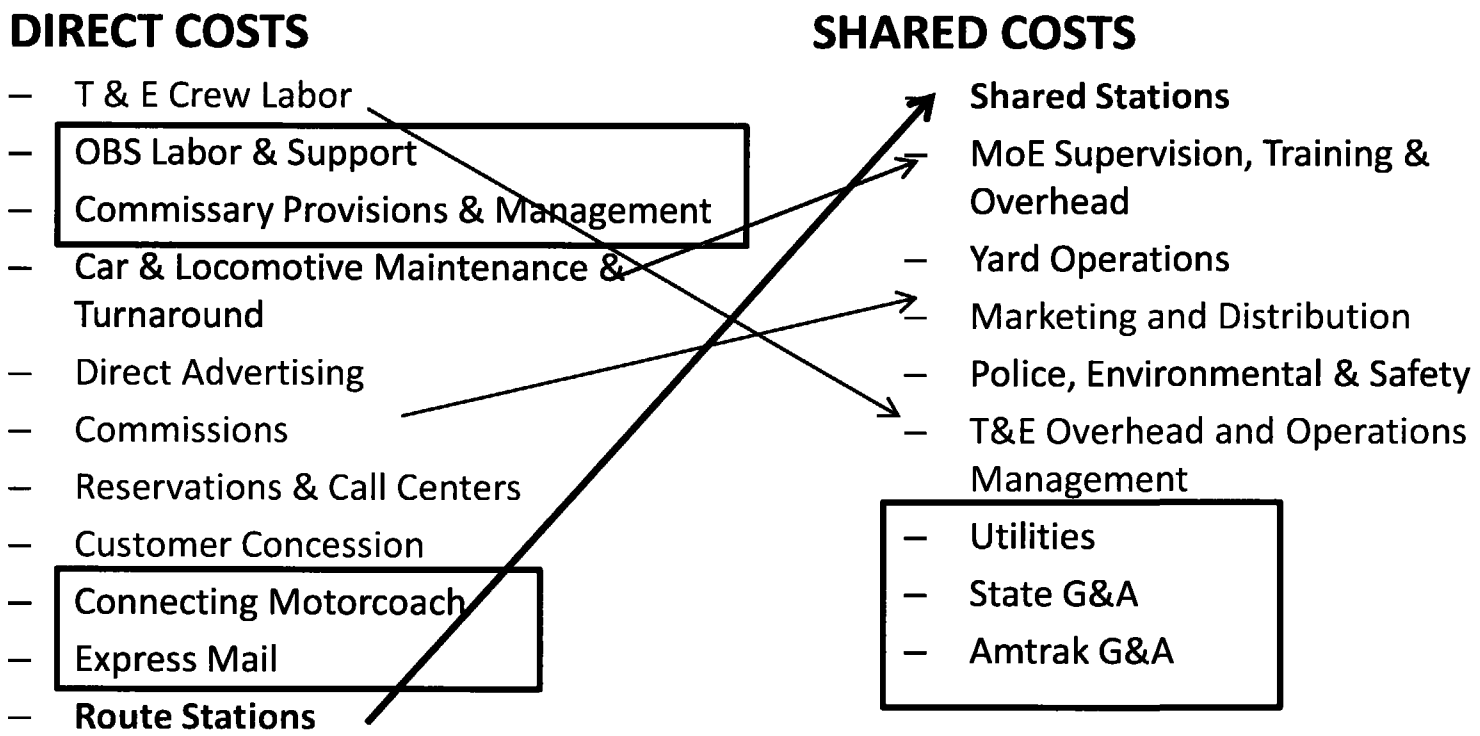
- T & E Crew Labor
- OBS Labor & Support
- Commissary Provisions & Management
- Car & Locomotive Maintenance & Turnaround
- Direct Advertising
- Commissions
- Reservations & Call Centers
- Customer Concession
- Connecting Motorcoach
- Express Mail
- Route Stations

SHARED COSTS

- Shared Stations
- MoE Supervision, Training & Overhead
- Yard Operations
- Marketing and Distribution
- Police, Environmental & Safety
- T&E Overhead and Operations Management
- Utilities
- State G&A
- Amtrak G&A

Direct/Shared Cost Relationships

When put side by side, its easier to see relationships and "definition blurring" between several Direct and Shared cost categories. Direct and Shared Cost Families can be matched up based on general corresponding categories of utility.



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Aligned Direct & Shared Cost

Based on the APT 2010 workbooks provided, direct and shared categories have been aligned and evaluated by category to identify relationships or trends which could be helpful in determining a multiplier.

T & E Crew Labor	**T&E Overhead and Operations Management**
Car & Locomotive Maintenance & Turnaround	**MoE Supervision, Training & Overhead**
OBS Labor & Support	**Yard Operations**
OBS Provisions & Management	
Direct Advertising	**Marketing and Distribution**
Commissions	
Reservations & Call Centers	
Customer Concession	
Connecting Motorcoach	
Express Mail	
Route Stations	**Shared Stations**
	Police, Environmental & Safety
	Utilities
	State G&A
	Amtrak G&A

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- The next few slides look at APT costs allocations by various metrics, including Train Mile, Car Mile, Passenger Mile, Riders and Revenue.
- The also suggest ideas regarding associating Direct and Shared Cost Categories and the cost implications of doing so.

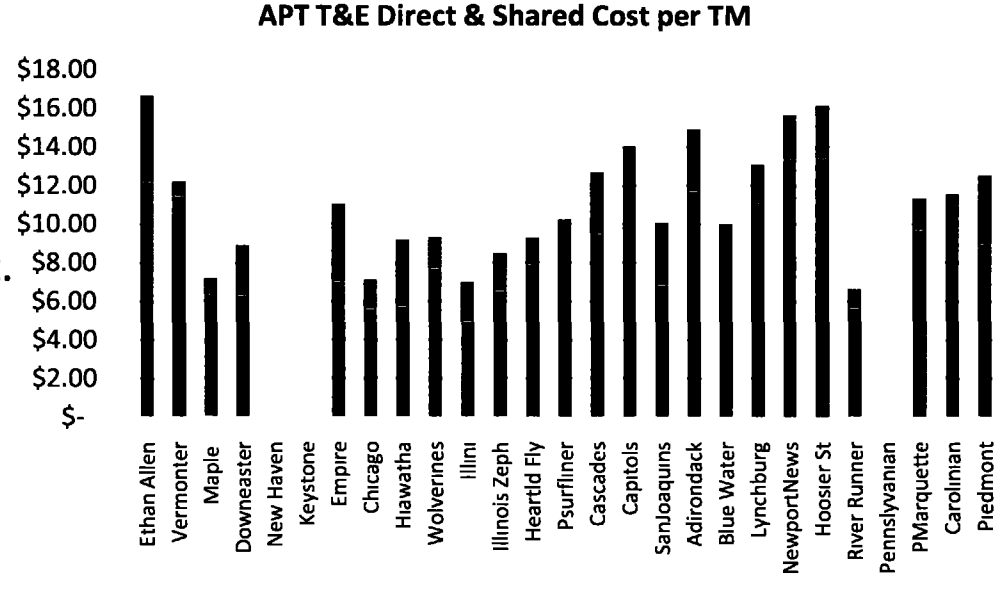
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T&E Crew Labor & Management

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T&E Costs represent 22% of Total Net Route Costs

- 71% T&E Costs are Direct
  - Avg Cost/TM = $6.50
    - Ethan Allen $12.16
    - Illini $4.94
- 29% T&E Costs are Shared Transportation Mgmt & Oversight.
  - Avg Cost/TM = $2.61
    - Ethan Allen $4.49
    - Vermonter $.76
- Avg Total Cost/TM = $9.40
  - Ethan Allen $16.65
  - River Runner $6.60



T&E Crew Labor *(Personnel)*

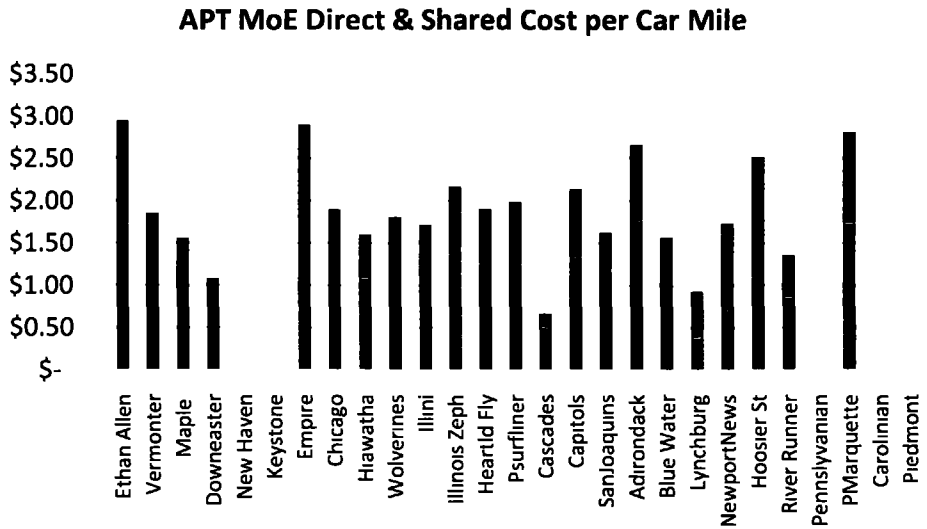
Idea:

- Refine Direct T&E Costs to reflect crew and direct supervision as reported by APT and agreed to by States
- Replace T&E OH & Ops Management with a support fee as a % of Direct T&E
- Direct Costs increase/*Shared* Costs decrease

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Equipment Maintenance

- **Equipment Maintenance Costs represent 26% of Total Net Route Costs**
  - 64% Car & Loco Maint & Turn
    - Avg Cost/CM= $.99
      - Adirondack $1.76
      - Downeaster $ .74
  - 36% MoE Super, Train, OH
    - Avg Cost/TM = $ .56
      - Hoosier $1.42
      - Downeaster $ .34
  - Avg Total Cost/TM = $1.55
    - Ethan Allen $2.94
    - Downeaster $1.08



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Equipment Maintenance

Idea:

- Refine **Direct MoE Costs** to reflect regular scheduled maintenance, turnaround and PM as reported by APT and agreed to by States

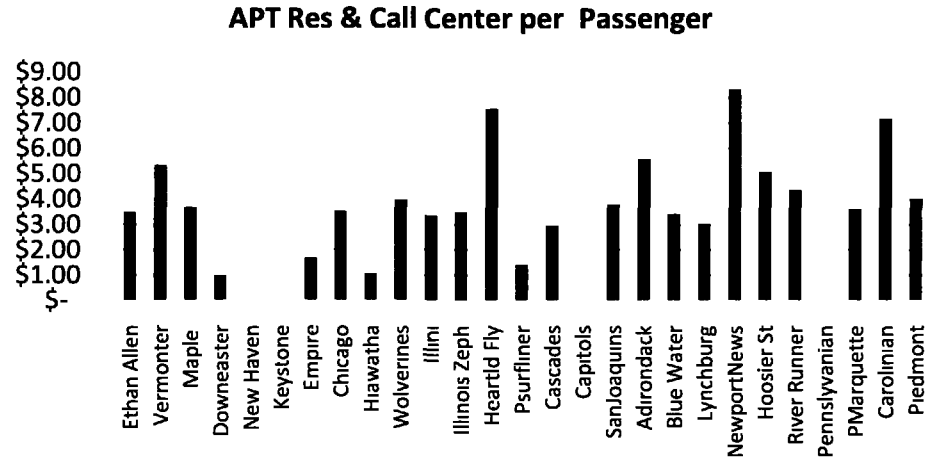
- Replace **MoE Supervision**, Training and OH with a support fee as a % of Direct MoE

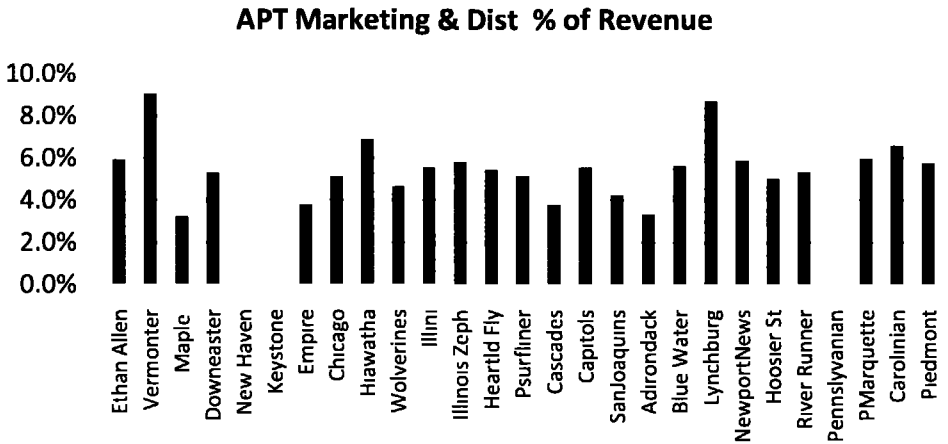
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Sales, Marketing, Reservations & Distribution

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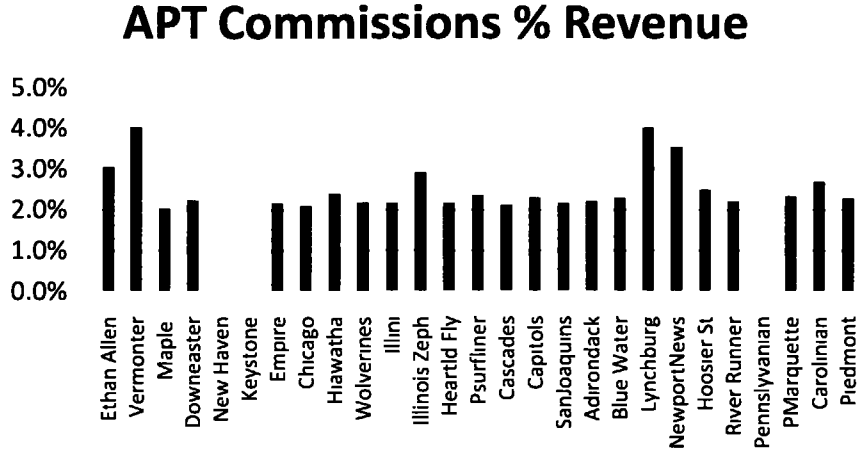
- Reservations Costs *(direct)* are inconsistent & include both direct and shared components .
- No back-up provided.
  - Avg $3.80 per passenger
    - Heartland Flyer $7.56/pass
    - DE $.98/pass
- Marketing & Distribution *(shared)* should be related to total revenue.
  - *Avg 5.8% Total Revenue*
    - *Vermonter 9%*
    - Hiawatha 6.9%
    - Maple Leaf 3.2%





Sales, Marketing, Reservations & Distribution

- Commissions are most consistent at 2.76% of total revenue.
  - Vermonter $4.04
    - Ethan Allen $3.05
    - Maple Leaf $2.04
- Advertising should only include programs directly benefiting a route, but should include all advertising costs, i.e. schedules, etc.



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Sales, Marketing, Reservations & Distribution

Idea:

- **Commissions** should remain Direct Cost as per APT
- **Direct Advertising** should include all specific and national programs agreed to by State and Amtrak
- **Reservations & Call Center** cost need to be defined and refined.
- **Passenger Inconvenience** should be direct as agreed upon.

- Assess a support fee as a % of projected revenue to cover general Marketing Support

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Food Service

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State Questions & Issues regarding Food Service Cost Allocations:

- OBS Labor & Support includes both Direct Costs and allocated OH.
- Commissary Provisions & Mgmt includes both supplies and OH
- No back-up sheets provided for provisions
- Additional analysis required

Idea:

- Refine OBS Labor to only reflect direct labor and supervision as reported by APT and agreed to by States as a Direct Cost
- Refine Commissary Provisions to reflect the cost of supplies/food directly attributable to the route as a Direct Cost
- Assess a support fee equal as a % of Direct OBS Labor + Supply costs to cover OH, Mgmt and other costs.

Police, Environmental & Safety

- This is strictly a shared cost category.
- Broken down into 4 families:
  - National
  - Regional/Local
  - Security
  - Environmental
- Average $.01 /PM
- Downeaster $.12/PM

Idea:

- Redefine Regional/Local Police to be a direct cost category
- Review to determine best way to define and allocate costs as a % of Direct – or as a cost per Passenger Mile.

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Stations

- Direct & Shared Station Costs represent 11% of Total Net Cost.
- Shared Station costs are 351% of Direct Station Costs and 78% of total station costs.
- Shared Stations Costs are very high & non defendable in many areas
- Varied nature of Station Costs does not lend itself to a shared cost multiplier

Idea:

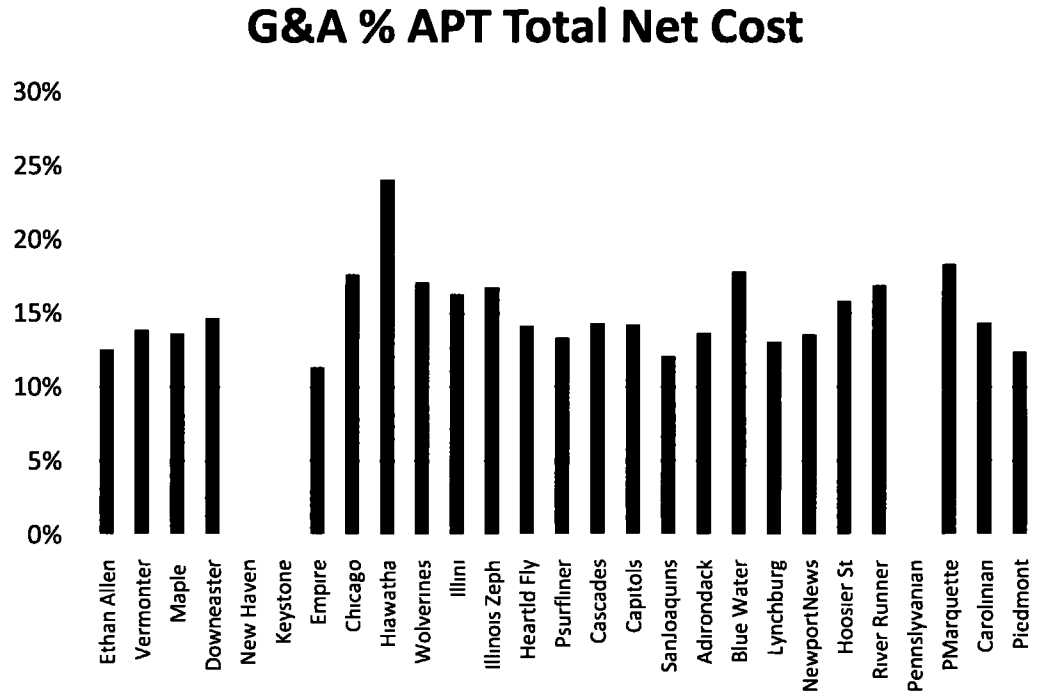
- Revise Direct Station Costs to include both the costs of independent stations & shared station costs specifically attributable to a route.
- **Cost Structure for Shared stations needs to be addressed.**
- Assess a support fee as a 5% of Direct Station Costs to cover general support service.

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G&A

- Generally averages about 15% of total net cost.
  - Hiawatha 24%
  - Empire 11%
- Cost too high.
- All shared.

No justification or back up.



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G&A

Idea:

- Assess a **Support G&A Fee** as a % of Total Net Cost to cover general support service.

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Given the previously listed ideas and recommendations, the following slide demonstrated how costs could be assessed to states using:

- 100% agreed upon Direct Costs
- Support Fees, instead of Shared Costs, assessed as a percentage of related Direct Costs.
- G&A assessed as a % of Total Net Costs.
- Plus 3rd Party Costs

Sample Route Cost Assessment

100% APT Direct Cost Categories		*Applicable Support Fee*		
T & E Crew Labor & Supervision	**X**	**20% or 25% T&E Labor Support Fee**	=	**Total T&E**
Car & Locomotive Maintenance & Turnaround	**X**	**20% or 25% MoE Support Fee**	=	**Total MoE**
OBS Labor & Supervision + OBS Provisions	**X**	10% or 15% OBS Support Fee	=	Total OBS
Direct Advertising + Reservations & Call Centers + Commissions + Customer Concession	**+**	**Marketing Support Fee 3% or 5% of Total Revenue**	=	**Total Reservations & Marketing**
Connecting Motorcoach + Express Mail			=	Total Auxilliary Services
Single Route Stations + Shared Stations *(75% APT)*	**X**	**5% -10% Station Support Fee**	=	**Total Station Costs**
Local / Regional Police	**X**	**5% Environmental & Safety Support**	=	**Total Police & Safety**

Sum of Above =

Total Operating Costs

X

15% G&A Fee

=

Total *Net* Route Service Cost

+

Host RR MoW +Host RR Performance +Fuel + MoW Support	**X**	**1% Administration Fee**	=	**Total 3rd Party Costs**

=

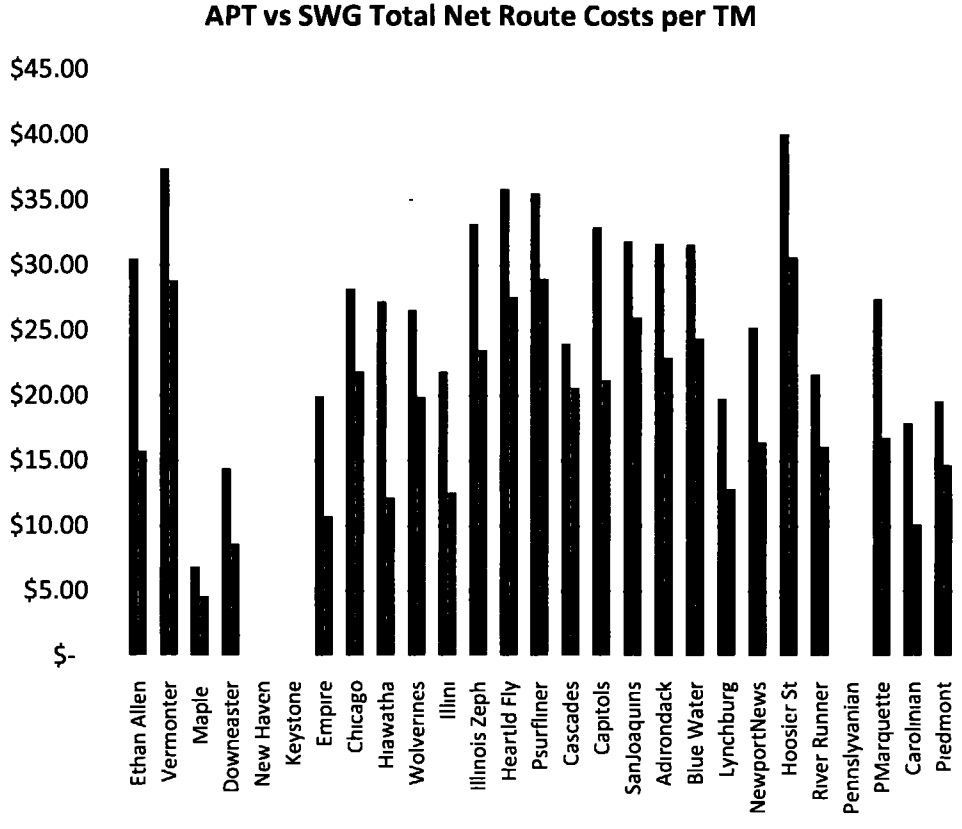
Total Route Service Cost

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Impacts of SWG Ideas

$26.73 = APT average
Total Net Route Cost per TM

$24.87 = SWG average
Total Net Route Cost per TM

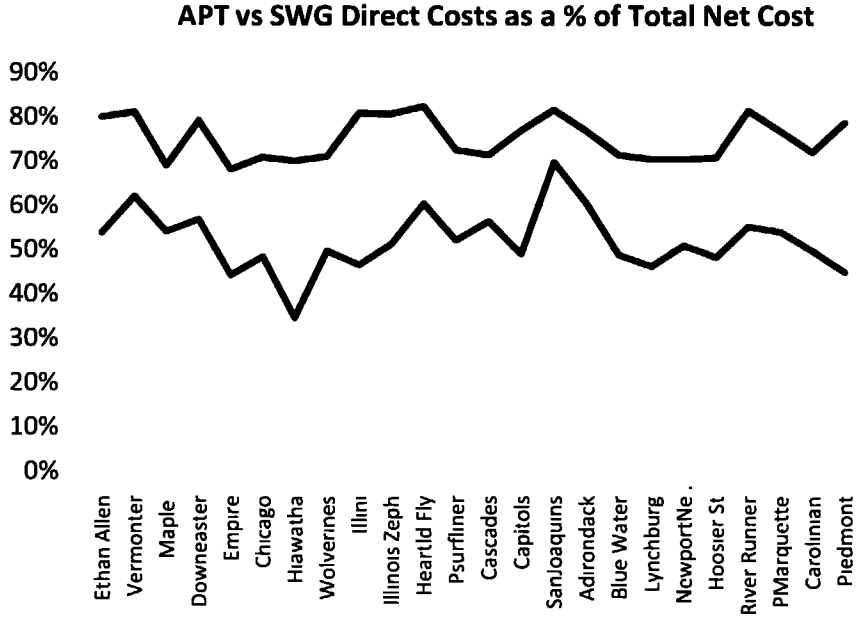


Impacts of SWG Ideas

APT: 52% of Total Net Costs are Direct Costs

SWG: 74% of Total Net Costs are Direct Costs

Provides more confidence & control for states



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Impacts of SWG Ideas

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APT Financial Impact:

$669,157,697 Total Cost

$335,311,387 Less Revenue

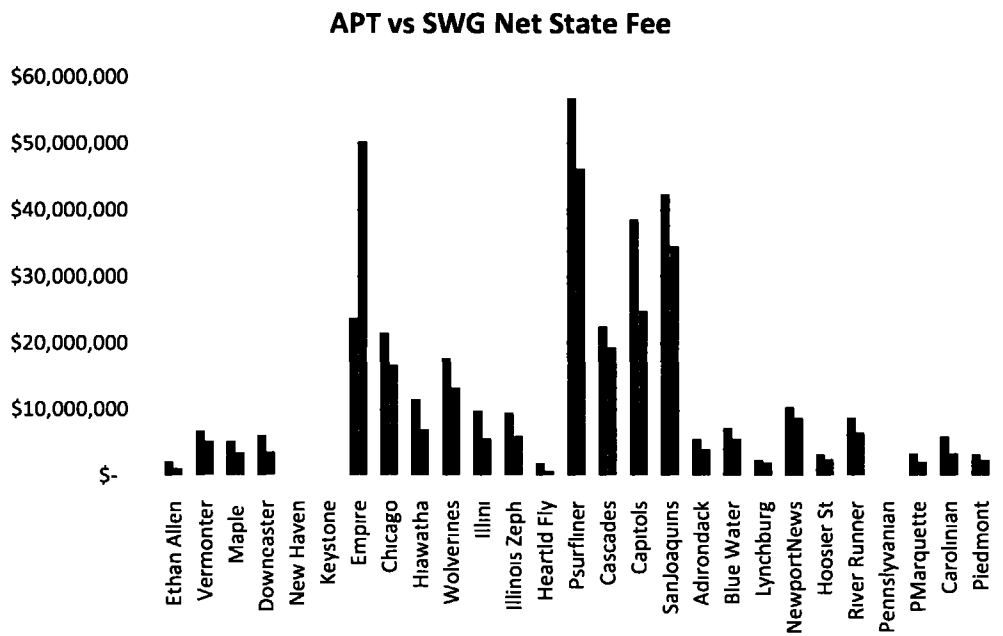
$333,846,310 Net State Pmt

SWG Financial Impact

$575,610,662 Total Cost

$335,311,387 Less Revenue

$240,275,275 Net State Pmt



Thoughts?

Exhibit M

SUMMARY of SWG PRICING SCENARIOS

2-7-11

OBJECTIVES

The primary objectives associated with SWG proposals are to establish a pricing mechanism which:

- Fairly allocates costs to states
- Is less than Fully Allocated
- Has sustains the level of funding currently provided by States which currently support the "whole costs" of their routes.
- Gives States more control and a better understanding of costs (Route Costs)
- Allocates overhead/non specific costs as a percentage, based on the level of service provided, not as a share of what Amtrak spends.

FULLY ALLOCATED COSTS

- APT Fully Allocated Costs for 209 Routes: $741m
- Currently, 75% of fully allocated costs are covered by a combination of operating revenues and state payments.

IMPACTS of PROPOSALS

- Amtrak Policy A proposed that 90% of costs would be covered by a combination of operating revenues and state payments.
- Amtrak Policy B proposed that 91% of costs would be covered by a combination of operating revenues and state payments.
- The SWG Pricing Scenarios propose that 209 routes will cover approximately 80% of their fully allocated costs through a combination of operating revenues and state payments.

OVERVIEW OF PRE-209 COST ALLOCATIONS: SUPPORTED vs. NON-SUPPORTED ROUTES

16 Routes are currently fully supported by States.

- These routes represent:
  - 44% of total train miles of all "209 Routes"
  - 40% of the total ridership of all "209 Routes"
  - Generate 38% of all ticket revenue.
- About 84% of the fully allocated costs these routes are covered by a combination of revenues and state payments.
  - APT Costs allocated to those Routes: $306m
  - Ticket Revenue from those Routes: $139m
  - State Payments for those Routes: $117m
- Additional payments which would be required by states currently supporting routes to cover fully allocated costs: $50m

11 Routes are currently not funded or only partially funded by States.

- About 69% of the fully allocated costs of these routes are covered by a combination of revenues and state payments.
    - APT Costs allocated to those Routes: $435m
    - Ticket Revenue from those Routes: $228m
    - State Payments for those Routes: $ 72m
- Additional payments which would be required by states currently not or partially supporting routes to cover fully allocated costs: $135m

ROUTE COSTS:

The SWG Pricing Scenarios are all based on route costs as presented by Amtrak. The variances in total costs are a result of the impacts of the MULTIPLIERS only. Route costs are consistent in all scenarios.

Note that the Route Costs are based on initial APT numbers presented by Amtrak and do not reflect and errors or omissions which may occur upon consultation with States. In most, if not all cases, it can be assumed that Route Costs for routes will be less than what indicated here.

- The total Route Costs allocated to 209 routes = $425m
    - 41% of Route Costs allocated to 209 Routes which are currently fully funded by states = $175m
    - 59% of Route Costs allocated to 209 Routes which are partially or not funded by states=$250m

IMPACTS ASSOCIATED WITH SWG PRICING SCENARIO

Impacts of SWG C: (smaller multipliers, no G&A)

- $594m in costs are allocated to 209 Routes, which is 80% of the fully allocated costs.
- Fees for states currently contributing will *decrease* collectively by $5.7m
- Fees for states not contributing or partially funding their services will increase by $44m
- Total increase in fees to Amtrak: $38.3m

Exhibit N

To: State Working Group
From: Amtrak Policy & Development
Date: February 18, 2011
Re: Response to Policy Proposal, February 8

Thank you for submitting your proposed PRIIA Section 209 operating pricing policy via e-mail on February 8. Our understanding of the key features of the policy is as follows:

- Costs are classified into 3 categories: Third Party Costs, Route Costs, and Other Costs. Third Party Costs consist of host railroad maintenance of way and performance incentives, and fuel. Route Costs consists of costs that States are generally able to "see and touch" on their routes, and costs that are easily understood and allocated even if they are not geographically close to the service.
- Third Party Costs will be charged to States, Route Costs will be charged to States, and Other Costs will not be charged to States.
- Additives will be charged to certain Route Cost line items in place of Other Costs. These additives will vary based on whether routes connect with the Northeast Corridor.

Third Party Costs
This cost category contains the line items that are proposed to be billed based on actual costs. Because the additive formula proposed was based on specific line items, it appears that segregating these costs becomes less important from a pricing perspective, but we agree that the characteristics of these costs (can be highly variable) makes it meaningful to consider them separately.

Route Costs
Based on our preliminary analysis, we agree with the concept you propose of defining Route Costs that will be charged to States at a detailed level. We understand how the items you have identified as Route Costs are easy for you to understand, verify, and explain to your various stakeholders. We are also pleased at how by using the detail in the Amtrak Performance Tracking (APT) system for these costs, we are able to pass along route-specific cost characteristics (e.g., T&E crew couplets, stations) to the sponsoring States(s). Further analysis may lead us to suggest minor revisions between Route and Other Costs, but at this time we believe this is a good framework with which to continue our discussions.

Additives
You have proposed additives (multipliers) for Crew, Equipment, OBS, Marketing, and Police & Security. You have not proposed a G&A additive. As our earlier discussions revealed, some cost line items defined as Route Costs have overhead-type costs included with the direct costs in the APT family (e.g., stations, host railroads), so these do not explicitly require an additive. Other cost line items may have overhead-type costs classified elsewhere, but you have not proposed an additive for all of these line items. In the interest of simplicity, we are open to the idea of not calculating an additive for every Route Cost where one is possible. The number of additives (5) and the categories you propose seem like a good compromise between ease of implementation and having a sufficient level of detail.

Exhibit O

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue NE Washington DC 20002
tel 202 906 2681 fax 202 906 3085

Stephen J Gardner
Vice President, Policy and Development

March 17, 2011

Paula J. Hammond
Chair, States for Passenger Rail Coalition
Secretary, Washington Department of Transportation
310 Maple Park Avenue SE
P.O. Box 47300
Olympia, WA 98594-7300

Eugene A. Conti Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary, North Carolina Department of Transportation
Transportation Building
One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Hammond and Conti:

I'm writing today to discuss our collaborative efforts to advance Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). First, I'd like to recognize the time and effort that your agencies and fellow States have contributed to the Section 209 process. We have made significant progress and this would not have been possible without this cooperation and, in particular, the substantial contributions of the Section 209 States Working Group (SWG) appointed by your organizations.

The recent pricing proposal from the SWG represents a major shift in how Amtrak and our State and agency partners would share the costs of providing passenger rail service. The Amtrak Board of Directors has reviewed and indicated its general support for this approach, subject to agreement on the additive rates and other details, and we believe it will be a solid foundation for cooperatively growing our operations in the future. While this generally policy concurrence represents a significant step forward, at this time, certain details of this proposal remain outstanding as we continue to cooperatively refine this proposal. We are confident that we can resolve these issues, but we believe that we can do so in a more thorough manner by devoting some additional time to the Section 209 process.

To that end, we propose that we extend the agreement between our organizations, originally executed by Secretaries Busalacchi and Conti on October 15, 2010 and attached, for an additional two months until June 16, 2011. Under this proposed extension, we will continue to work in good faith to finalize these details, and we will continue to agree to only approach the Surface Transportation Board (STB) for assistance in cases of mutual agreement.

To indicate your agreement with this extension, please sign this letter and return it to the above address. We look forward to the swift conclusion of this important process, and I would again like to thank all our State and agency partners for their contributions.

Sincerely,

Stephen Gardner
Vice President, Policy & Development

ACCEPTED AND AGREED:

Date: _____

By: _____

Title: _____

Date: _____

By: _____

Title: _____

cc: Thomas Carper, Chair, Amtrak Board of Directors
Joseph H. Boardman, President and CEO, Amtrak

Exhibit P

To: SWG & Amtrak counterparts
From: Max Johnson
Date: March 30, 2011
Subj: Meetings to discuss capital charge, additives

Capital charge
Some background on financial terminology we discussed this morning which may be helpful for the topic:

- Operating costs are costs where the associated benefits are used up within the period, generally the month or the year
- Capital costs are costs where the benefits last for more than a period, generally longer than a year
    - First, spending capital dollars is considered investment or capital expenditure ("cap ex")
    - Then, when the dollars are spent, accountants capitalize the spending and create assets
    - Finally, the assets are depreciated (or amortized) over the estimated useful life of the asset, representing how much of the asset is used up in a given period

The APT system presents capital charge data in terms similar to depreciation – how much of the asset is being used up, by route, by time period. One advantage of this is that the costs of using assets are shared fairly across routes and across time. One disadvantage of this (at least from a 209 perspective) is that the depreciation number is disconnected from when and how the capital dollars are spent.

Thus far in the process of designing a capital charge, we have proposed using the APT depreciation data to take advantage of its fair split of capital costs across routes and time. We have attempted to solve the problem of the missing link to spending by proposing the creation of capital reserve accounts ("lockboxes") to create a future record of how these funds will be spent.

While we may have solved the problem of the missing link between asset usage and investment, the lockbox concept as presented would set aside funds intended for capital investment on a specific route, but would not immediately create a detailed investment plan for those funds. Some states have expressed that this approach is not how their agency or their state typically does business. Yesterday, we also heard similar concerns from the FRA.

Because the FRA is likely to be interested in aligning the capital charge with current and proposed Federal grant programs, the FRA is also interested in linking this charge to specific investments. In the terms of the terminology discussed above, this would involve basing the charge not on a depreciation number, but instead on an investment/cap ex number. One caveat to this approach is that cap ex investment can be "lumpy" relative to the more "smooth" depreciation number, but a future investment program could be structured at a more steady rate.

As discussed previously, even though there is a perception that older equipment is fully-depreciated, there is a constant requirement for a certain level of overhauls for reasons of safety, performance, and appearance. One possibility for developing a capital charge that meets the needs of the funding partners (FRA and states) is to take this investment data and allocate it by routes using the Units Used statistic in APT. (Note: this would not happen within APT, nor is it a proposed change to APT This process, as envisioned, would involve combining the statistics from APT with other financial information outside of APT.)

We will begin investigating this alternative and give you further updates at our next meeting...

Additive Summit
Yesterday we held the "Additive Summit" between Policy & Development, the APT group. and the Financial Control/Costing group, who develops costing for businesses such as Commuter and outside mechanical work. We ended the meeting with a general consensus between the groups about the Route Cost approach, and a short list of follow-up analysis.

Exhibit Q

PRIIA Section 209
Cost Methodology Policy

June 10, 2011

Draft for Discussion

Prepared for PRIIA 209 States and Other Interested States by
The States Working Group (SWG) and Amtrak:

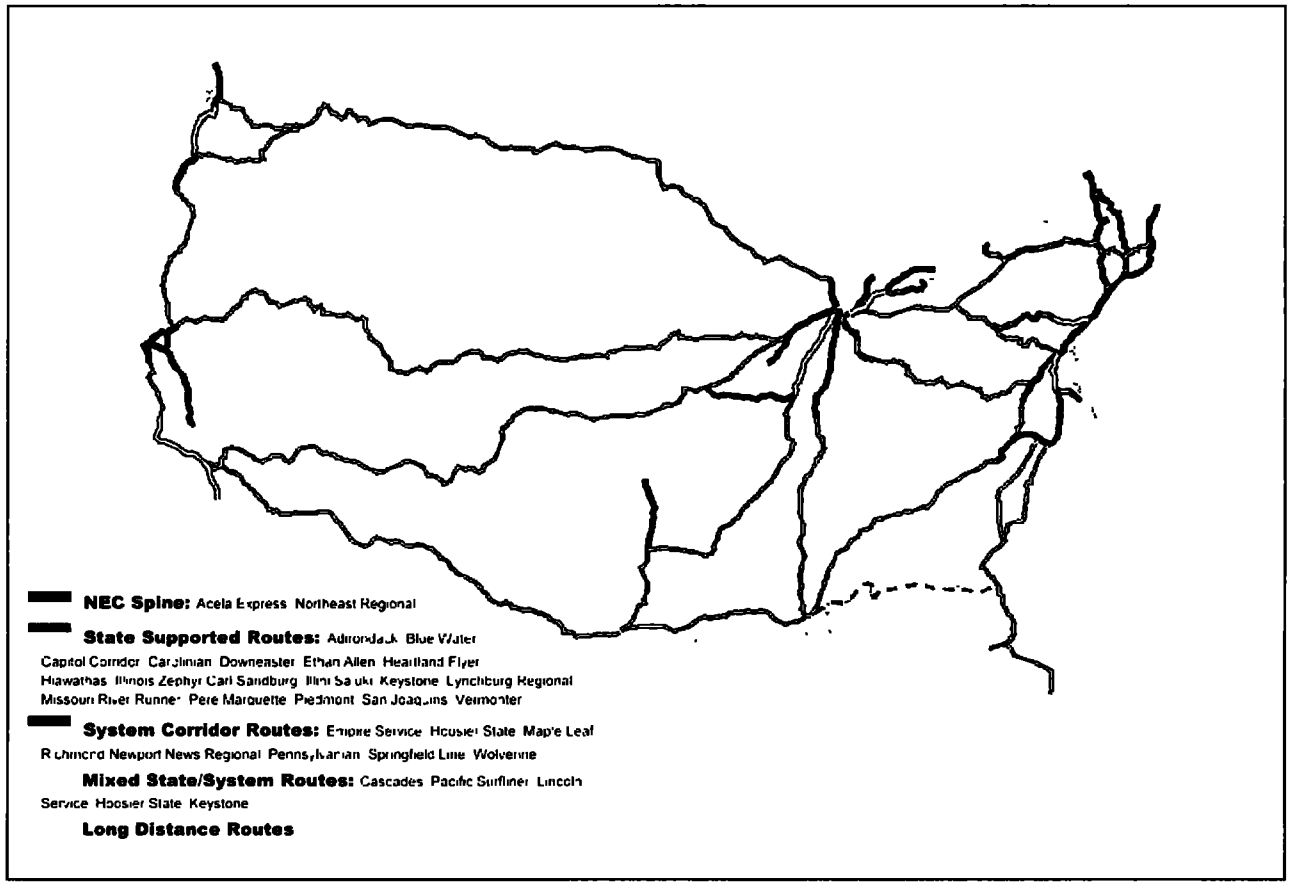
Passenger Rail Investment and Improvement Act (PRIIA) of 2008
Section 209 Cost Methodology Policy

Recommended by the State Working Group (SWG) and Amtrak Staff[1]

DRAFT 6/10/11 – For Discussion Purposes ONLY

Overview

Under the provisions of PRIIA Section 209, all short-distance Amtrak corridor services must become state-supported routes and states must pay the proportional costs associated with their respective corridor route. This document describes the "single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak." 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).



Appendix A provides a list of affected routes; ***Appendix B*** provides the text of Section 209 and related statutes.

[1] Members of SWG-Amtrak group include John Bennett, Stephen Gardner, Shayne Gill, Susan Howard, Max Johnson, David Kutrosky, Beth Nachreiner Kevin Page, Patricia Quinn, and Patrick Simmons

Currently, approximately 36 of the total 110 corridor routes are either partially or completely supported by Amtrak. Once Section 209 is implemented, all such corridors routes will be priced in a transparent, fair and equitable manner. Amtrak and states were charged with collaboratively creating a cost methodology to establish a basis for sharing operating costs plus an annual capital charge for Amtrak-owned equipment and facilities used for intercity passenger rail service.

This policy statement outlines the methodology Amtrak will use to compute:

- operating expenses for routes using a formulation that defines direct route costs and associated additives, and
- capital charges for the use of Amtrak-owned assets.

The Amtrak Performance Tracking (APT) system – Amtrak's recently-implemented cost accounting system, that is linked to Amtrak's financial and operating systems -- provides the cost basis that the SWG and Amtrak used to evaluate options for assigning service area route costs.

The Federal Railroad Administration (FRA) met with the SWG and Amtrak to address the issue of transition assistance to the states during the phase in of the new methodologies for route and capital costs. This policy outlines clearly that states are responsible for the costs associated with the new capital charge. However, the FRA recognizes that states will face a financial burden as they implement the new cost-sharing approach. While the details of transition assistance have not been fully developed, the FRA has committed to working with the states and Amtrak on transition assistance.

Basis for Allocating Costs

Many railroad costs—both costs directly related to the services provided and those shared among services—are by their nature provided through jointly used crews, crew bases (locations where train crews report for work), support teams/facilities, maintenance facilities, and stations. As such, cost allocation methods and procedures are needed to fairly apportion these costs. The Amtrak Performance Tracking (APT) system will provide the basis for allocating "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".

In some cases, Amtrak and states may agree 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.

Operating Scenarios

State-supported routes are classified into three operating scenarios:

Single State Corridor Trains. These corridor trains do not cross state lines and do not use the NEC "spine" (Boston-Washington).

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.

Base-Increment NEC Corridor Trains (Single- and Multi-State). For corridor trains having some part of their route traversing the NEC spine, 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). 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. Specifics surrounding this issue are unresolved and will require further refinement.
- 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.

In addition to the operating scenarios described above, some state-supported routes travel for part of its entire route on right-of-way owned by Amtrak outside the NEC; these routes are described in ***Appendix C***. In these situations, Amtrak will remove the maintenance of way expenses for these segments as allocated in APT, and replace them with a synthetic host railroad charge. This charge is consistent with the costs that are typically charged to Amtrak by host railroads for incremental operating and maintenance.

Methodology for Determining Operating Costs

Under the proposed S209 Methodology, the Service Fee will include:

- 100 percent of the "Third Party Costs" associated with its corridor service;
- 100 percent of the verifiable Route Costs associated with its corridor service;
- Support Fees proportional to its corridor service; and,
- Credit for passenger and other allocated revenue, resulting in the Net State Cost.

Third Party Costs:

Actual Third Party Costs will be charged to the state corridors. Third Party Costs are comprised of:

- Host railroad maintenance of way;
- Host railroad performance payments; and
- Fuel and power charges.

Route Costs:

Route Costs are operating costs closely associated with the operation of a route. Route Costs can clearly be evaluated and tracked by Amtrak and the states in the direct provision of service on a corridor train. Route operating costs include the following categories as allocated by the APT system:

- Train and engine crew labor
- Car and locomotive maintenance and turnaround service
- On Board Service Labor and provisions (Food Service)
- Route Advertising,
- Sales & Distribution

- Reservations and Call Centers
- Route Stations
- Shared Stations
- Commissions
- Customer Concession
- Connecting Motor Coach
- Local & Regional Police
- Block & Tower operations
- Terminal Maintenance of Way
- Insurance

Support Fees:

Some cost categories have an additional level of regional and national support not included in the Route Costs, and therefore also include Support Fees that are proportional to the service provided. Support Fees are determined by applying category-specific additives to an associated route cost or other aspect of service, (i.e. revenue or passenger miles). These additives were developed by converting support cost data from the APT system into rates that would be consistent across all trains in a region, or in some cases, all state-supported trains.

For example, Amtrak provides mechanical support, facilities and services that can reasonably be apportioned between Amtrak's business lines – the Northeast Corridor (NEC) trains, long-distance trains and state-supported trains. The Maintenance of Equipment (MoE) support fee represents the portion of those costs allocated to state-supported trains and is determined by applying an additive rate to the Car & Locomotive Maintenance and Turnaround route cost.

There are six categories of Support Fees are determined as follows:

- Train & Engine Crew Support (T&E): A combination of system and division additives applied to Train & Engine Crew Labor route costs. All corridors will be charged a system additive which is fixed (*12.9 percent*) and a division additive which is variable (*13.5-24.3 percent*). The division additive is based on the Amtrak region in which the corridor operates and is linked to the management structure within Amtrak that is responsible for service delivery by train crews. The T&E system additive rate excludes costs from Amtrak's Consolidated National Operations Center (CNOC), which are considered a "backbone" cost.
- Maintenance of Equipment (MoE): A fixed system additive (*27 percent*) applied to the Car & Locomotive Maintenance and Turnaround Route Cost. The MoE additive rate excludes backshops and fleet engineering costs, which are considered a "backbone" cost.
- On Board Services (OBS): A fixed system additive (*10 percent*) applied to the OBS Crew & Provisions Route Cost.
- Marketing: A variable regional additive (*1.9 - 2.8 percent*) applied to total revenue. The marketing additive is based on the degree to which a state corridor is connected to the NEC or to a major Amtrak hub station. Corridors that fall into those categories will have a higher additive associated with Amtrak's higher level of shared marketing in those regions.
- Police: A fixed system additive (*$.005*) applied to passenger miles.

- General & Administrative: A fixed system additive (*2 percent*) applied to Total Route Costs.

The additive rate will remain the same for three years, unless there is a significant unforeseen event. A change in the additive rate during the three-year term must be approved by Amtrak and the states. At the end of the three year period, Amtrak will propose adjustments to the additive rates if they are necessary. States and Amtrak must mutually agree on additive rate adjustments.

The table below illustrates the S209 Operating Cost Pricing Methodology. The definitions of cost categories and additives are described in more depth in ***Appendix D.***

S209 Operating Cost Pricing Methodology

ROUTE COSTS	+	SUPPORT FEE	=	OPERATING COSTS
Train & Engine Crew Labor		*T&E Route x (Division Additive* + System Additive (12.9%)*	=	Total Train & Engine Crew Labor
Car & Locomotive Maintenance & Turnaround	+	*Car & Loco Route Cost X System Additive (27%)*	=	Total Maintenance of Equipment
On Board Service (OBS) Crew & Provisions	+	*OBS Route Cost x 10% OBS Additive*	=	Total On Board Services
Route Advertising			=	Total Route Advertising
Sales & Distribution	+	*Marketing Additive* x Passenger and Allocated Revenue**	=	Total Sales & Marketing
Reservations & Call Centers			=	Total Res & Call Center
Stations – Route			=	Total Route Stations
Station – Shared			=	Total Shared Stations
Commissions			=	Total Commissions
Customer Concessions			=	Total Concessions
Connecting Motor Coach			=	Total Motor Coach
Regional/Local Police	+	*Passenger Miles x Police Additive ($0.005)*	=	Total Police & Security
Terminal Yard Operations			=	Total Terminal Yard Ops
Terminal Maintenance of Way			=	Total Terminal MoW
Insurance			=	Total Insurance
Total Route Costs *(Sum of Above)*	+	*Total Route Costs x General & Administration Additive (2%)*	=	General & Administrative
				Route Service Fee *(Sum of Above)*
		Host RR Maintenance of Way + Host RR Performance + Fuel & Power	+	3rd Party Costs
			=	**Total Operating Costs** *Service Fee + 3rd Party Costs*
			-	Less Passenger and Other Allocated Revenue
			=	**NET STATE COST**

**Denotes variable additive. Reference Appendix D*

Optional Services and Pricing
States may wish to independently contract with alternative service providers for some services rather than Amtrak. For example, states may contract directly with vendors for food service, equipment maintenance, and other 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.

Methodology for Determining Capital Costs

Amtrak makes substantial capital investments in equipment (rolling stock) and other fixed assets needed to deliver passenger rail services. Under this policy, Amtrak will charge states for a share of these investments proportional to their use in state-supported services. Based on Section 209 requirements, the capital charge, or capital use charge[2], will be allocated to each route; each sponsoring state is responsible for funding its capital charge. Amtrak will work with states to find federal and other sources of funds to assist with the capital charge.

Amtrak will assess an annual capital charge to each state for the following asset types:

- Equipment – existing and new Amtrak-owned;
- Other fixed assets, including joint stations and Amtrak-owned rights of way.

A complete description of capital cost categories is included in ***Appendix E.***

The capital charge will be "investment-based" and will vary from year to year as required by each equipment type's life cycle maintenance plan. Allocating the equipment capital charge across all routes that use an equipment type will keep capital maintenance costs as consistent as possible over time. Amtrak will develop a defined five-year investment program for each state that describes the capital investments to be made over the period and the payments expected from the states throughout the period to support the five-year capital program. The program will be adjusted as needed in each annual contract update.

The five-year program would include detailed, verifiable program work elements to be accomplished by Amtrak in support of state services annually. In the case of investments/overhauls for equipment used in multiple routes, a sharing relationship will be negotiated at the beginning of each fiscal year based on the route's actual use of equipment as recorded by the APT system and adjusted for any changes in service expected in the upcoming year.

Amtrak will use the best available data to provide the state with an estimate for its capital charge prior to signing an agreement for state supported service. At the end of the contract period, Amtrak will reconcile that estimate to the actual capital investment by that equipment type and a state's use of equipment, as previously determined in each state's annual contract.

In cases where Amtrak spent less on capital overhauls than planned, Amtrak will apply a credit balance to future years' capital charges. In cases where Amtrak spent more on capital overhauls than planned, there will be no adjustment to the current year's charge but an adjustment will be made on the subsequent year's charge based on look forward investment strategies.

[2] Depending on specific state needs, the charge for capital investment on a state corridor can be characterized as a capital charge, or a capital use charge For purposes of this document, the term "capital charge" encompasses both characterizations

Amtrak will include the capital charge as a component of each state's Annual Operating Support Agreement. This capital charge will equal each state's pro rata share of the overhaul work described above. States may pay this amount from operating or capital funds, depending on a state's individual financial policies and/or grant sources.

The timing of the billing for capital charges will depend on the timing of the planned capital expenditures. The monthly cash flow for the equipment charge would be determined as part of the development of the Annual Operating Support Agreement.

Attribution of Previous State Capital Investments on the Amtrak Network
Some states have made capital contributions to Amtrak assets in association with their services. In general, past capital contributions that are not fully depreciated are eligible to offset capital charges. Amtrak will work with states to calculate this value in a mutually agreeable way.

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 estimate projected costs for the contract period and share them with states. 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 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.

State Corridor-Amtrak Contract Template

Amtrak and the SWG developed a contract template for states and Amtrak to use as they work together to develop their contract for services. The contract template addresses the key issues that states and Amtrak must discuss and address in some fashion to develop their agreements for the contract period. The contract template can be customized to reflect state differences. ***Appendix F*** outlines the proposed contract template

Transition from Prior Costing Methodologies

The SWG and Amtrak agree that a transition period is necessary to implement the new allocation methodology for route/additive and capital costs. Section 209 of PRIIA requires that the new methodology be fully implemented by October 16, 2013 – that date closely aligns with the beginning of Federal Fiscal Year (FFY) 2014.

For FFY 2013 (beginning October 1, 2012), Amtrak will calculate a state corridor charges under the current methodology and the new methodology. A State will pay the lower of the two charges, plus 50 percent of the difference between its current contract cost and the 209 contract cost. This difference will be applied whether it is greater or less than the current contract price. In FFY 2014 (beginning October 1, 2013), the proposed methodology will be fully implemented and states will pay the route and capital costs calculated under the new methodology. The term of states' contracts with Amtrak vary and do not always align with the federal fiscal year. Where contracts differ from the federal fiscal year, Amtrak will pro-rate the approach described above.

FRA staff met with the Amtrak and the SWG several times during the course of Section 209 methodology development. The FRA recognizes that the implementation of the new methodology will result in a financial

burden on states. FRA staff have committed to continuing their work with Amtrak and the states to develop a transition assistance plan to ease the impact of Section 209 on the affected states. The states, Amtrak and FRA recognize that any transition plan will need to ultimately be addressed by Congress.

Appendix A: Routes Affected by PRIIA Section 209

	Route Miles[3]	State-Supported FY10[4]	System Trains	State-Supported per PRIIA Sec 209
Single-State[5]				
Empire Service	461	-	Yes	Yes
Lincoln Service (Chi-St Louis)	284	Yes	Partial	Yes
Illini/Saluki	310	Yes	-	Yes
Illinois Zephyr/Carl Sandburg	258	Yes	-	Yes
Pacific Surfliner	350	Yes	Partial	Yes
Capitols	168	Yes	-	Yes
San Joaquins	315	Yes	-	Yes
River Runner (KC-St Louis)	283	Yes	-	Yes
Piedmont	173	Yes	-	Yes
Multi-State (Non-NEC)				
Ethan Allen Express	241	Yes	-	Yes
Maple Leaf	545	-	Yes	Yes
Downeaster	116	Yes	-	Yes
Hiawatha	86	Yes	-	Yes
Wolverines	304	-	Yes	Yes
Heartland Flyer	206	Yes	-	Yes
Cascades	467	Yes	Partial	Yes
Adirondack	381	Yes	-	Yes
Blue Water	319	Yes	-	Yes
Hoosier State	196	-	Yes	Yes
Pere Marquette	176	Yes	-	Yes
NEC Base-increment (Single and Multi-State)[6]				
Vermonter	611	Yes	-	Yes
New Haven – Springfield	63	-	Yes	Yes
Keystone Service	195	Yes	Partial	Yes
Boston/New Haven-Lynchburg	173	Yes	-	Yes
Washington-Richmond	187	Yes	Partial	Yes
Pennsylvanian	353	-	Yes	Yes
Carolinian	479	Yes	-	Yes

[3] For routes with multiple frequencies having different origins and destinations, represents the longest rail trip possible on multiple trains
[4] FY10 State support does not include capital payment, or in some cases, all trains on a route
[5] Routes with 95% or more route miles in one state are considered single state
[6] Excludes route miles on NEC

Appendix B: Relevant Legislation

SEC. 209. STATE-SUPPORTED ROUTES.

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under
subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for
the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year
after the Board's determination of the appropriate methodology.

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

49 USC § 24102. Definitions

(5) "national rail passenger transportation system" means -

(A) the segment of the continuous Northeast Corridor railroad line between Boston, Massachusetts, and Washington, District of Columbia;

(B) rail corridors that have been designated by the Secretary of Transportation as high-speed rail corridors (other than corridors described in subparagraph (A)), but only after regularly scheduled intercity service over a corridor has been established;

(C) long-distance routes of more than 750 miles between endpoints operated by Amtrak as of the date of enactment of the PRIIA [October 16, 2008]; and

(D) short-distance corridors, or routes of not more than 750 miles between endpoints, operated by--(i) Amtrak; or (ii) another rail carrier that receives funds under chapter 244.

49 USC §24702. Transportation requested by States, authorities, and other persons provides:

(a) CONTRACTS FOR TRANSPORTATION. Amtrak may enter into a contract with a State, a regional or local authority, or another person for Amtrak to operate an intercity rail service or route not included in the national rail passenger transportation system upon such terms as the parties thereto may agree.

49 USC § 24904. General authority

(c) Compensation for Transportation Over Certain Rights of Way and Facilities. – (1) An agreement under subsection (a)(6) of this section shall provide for reasonable reimbursement of costs but may not cross-subsidize intercity rail passenger, commuter rail passenger, and rail freight transportation.

(2) If the parties do not agree, the Interstate Commerce Commission shall order that the transportation continue over facilities acquired under the Regional Rail Reorganization Act of 1973 (45 U.S.C. 701 et seq.) and the Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 801 et seq.) and shall determine compensation (without allowing cross-subsidization between commuter rail passenger and intercity rail passenger and rail freight transportation) for the transportation not later than 120 days after the dispute is submitted. The Commission shall assign to a rail carrier obtaining transportation under this subsection the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation under this paragraph incurred for the common benefit of Amtrak and the carrier. The proportionate share shall be based on relative measures of volume of car operations, tonnage, or other factors that reasonably reflect the relative use of rail property covered by this subsection.

Appendix C: Amtrak-Owned Right of Way Eligible for Synthetic Host Railroad Charge

Amtrak-Owned Track Segment	Miles (Timetable)	Routes Affected
New Haven, CT – Springfield, MA	62	Springfield Shuttle
Philadelphia, PA – Harrisburg, PA	104	Keystones, Pennsylvanian
Porter, IN – Kalamazoo, MI	100	Blue Water, Wolverine
New York Penn Station – Spuyten Duyvil, NY	10.7	Empire Service

Appendix D: Definition of Cost Categories Used in State-Supported Service

version 2011-06-01

Major Cost Category	Cost Category	Definition	Formula
Third Party Costs	Host Railroad Maintenance of Way	Payments to host railroads for incremental costs primarily maintenance of way associated with passenger operations	FM_307(Host RR) less incentives, less Host RR fuel ess Host RR MoE
	Host Railroad Performance Incentives	Incentive payments to host railroads for meeting on-time and other performance targets	FM_307(Host RR) Schedule Adherence account
	Fuel and Power	Diesel fuel and electric power used in train operations	FM_304(Fuel) + FM_307(Host RR) fuel account +
Route Costs	Train & Engine (T&E) Crew Labor	Salaries, wages, benefits, and FELA for employees providing services for train operations. Includes engineers, conductors, assistant conductors and related extra boards	FM_302_1(T&E Crew)
	Car & Locomotive Maintenance and Turnaround	Turnaround service consists of cleaning, inspection, and minor repairs before or after revenue service. Also contains scheduled running maintenance and bad order repairs. Excludes capitalized maintenance and overhaul	FM_201(MoE Turnaround) + FM_202(MoE Loco Maint) + FM_203(MoF Car Maint) + FM_205(Mne Multiple direct functions only) _ FM_307(Host RR, MoE account only)
	OBS Crew & Provisions	Salaries, wages, and benefits for employees providing On Board Services in Cafe, Lounge, and Dining Cars, including related extra boards. Also includes provisions loaded on train for sale	FM_301_1(OBS Crew) + FM_301_2(OBS Supplies)
	Route Advertising	Sales & marketing expenses in support of a specific route, budgeted and recorded separate from other sales & marketing expense	Specific cost centers in FM_403(Marketing)
	Sales Distribution	Sales and distribution operations including development of new ticketing and on-board systems	FM_401(Sales (and Distribution) less Commission accounts
	Reservations & Call Centers	Reservation sales call centers for general public and travel agencies, and supporting information systems	FM_402(Information & Reservations)
	Stations - Route	Stations serving a single route. Depending on location, may include ticketing, baggage and express, stationmaster and ushers, station cleaning and maintenance, training and supervision	FM_501(Stations - Route)
	Stations - Shared	Stations serving multiple routes. In addition to route station services, shared stations may include Red Cap and porter services	FM_502(Stations - Shared)
	Commissions	Commission expense from credit cards, travel agencies, airline system access fees, and sales by other carriers as applicable	Commission accounts in multiple families for credit card sales, travel agents, and interline commission expense
	Customer Concession (Psgr Inconv)	Payments to passengers for food & lodging as a result of delays. Generally includes unscheduled/ emergency motor coaches	Passenger inconvenience account in FM_G_A(General & Administrative)
	Connecting Motor Coach	Scheduled connecting motor coach services	FM_306(Train Movement) Connecting Motor Coach account
	Regional/Local Police	Local and regional police patrolling duties in support of Amtrak trains, facilities, and rights of way	FM_901_2(Police - Regional/Local)
	Block & Tower Operations	Crews who operate staffed towers along specific rights of way	Specific cost centers in FM_306(Train Movement)
	Terminal Yard Operations	Crews who move train equipment at larger terminals before and after revenue service	FM_303_2(Yard - Train & Equipment Moves) + FM_303_4(Yard - Terminal Rent/Yard Services)
	Terminal MoW	MoW expense at large Amtrak terminals, as applicable	Specific cost centers in FM_MOW(Maintenance of Way)
	Insurance	Self and purchased insurance for passenger train operations	Allocated insurance expense in FM_G_A(General & Administrative)
Additives	T&E	Division-specific and system overhead rates for T&E supervision and management. Includes road foremen, superintendents, crew bases, crew dispatching, local and national operating rule compliance, and other support. Excludes national train dispatching	Division: Central — Division Rate 13.50%, System Rate 12.90%, Total 26.40% Mid-Atlantic — 18.40%, 12.90%, 31.30% Mid-Atlantic/Southern — 20.20%, 12.90%, 33.10% New England — 16.50%, 12.90%, 29.40% New York — 24.30%, 12.90%, 37.20% Pacific — 19.50%, 12.90%, 32.40% Southern — 20.60%, 12.90%, 33.50% Southwest — 16.30%, 12.90%, 29.20% Total rate to be applied to T&E Crew Labor
	MoE	Maintenance of shops and equipment to support direct Mechanical activities. Excludes Backshops and Fleet Engineering	27.10% of Route Cost Car & Locomotive Maintenance and Turnaround
	OBS	OBS and commissary management and supervision	10.00% of OBS Crew & Provisions
	Police	National police operations and support	$0.0050 per passenger mile
	Marketing	National marketing programs including national advertising, loyalty marketing, timetables, personnel in support of Route Advertising, shows, exhibits & special events, and other	Region: Base-increment routes on NEC — Rate 2.80% Routes with one terminal in Chicago — 2.80% All other routes — 1.90% Rate to be applied to Total Revenue
	General & Administrative	Charge for General & Administrative support including Computer Systems, Finance, Legal, and other	2.00% of Route Costs
Revenue Credit	Ticket revenue, net	Ticket revenue from passengers. Where applicable, includes through revenue adjustments described elsewhere in policy	As reported by APT with adjustments for through revenue described elsewhere in policy
	Food & Beverage Revenue	On-board food & beverage sales. Where applicable, pro-rated with supply expense across multiple legs	As reported by APT, pro-rated with supply expense across multiple legs
	Other Revenue	Miscellaneous revenue as allocated by APT	As reported by APT

Appendix E: Definition of Cost Categories Used in State-Supported Service - Capital

version 2011-06-01

Major Cost Category	Cost Category	Definition	Formula
Equipment	Passenger service equipment	Capital overhauls for Amtrak-owned equipment in service on state-supported routes, including locomotives, cab cars, coaches, and food service cars. States will be charged for the periodic capital overhauls of equipment in a period based on their proportionate use of that equipment in that period	Capital overhaul expense: by equipment type, from Amtrak's capital accounting systems. Equipment usage statistics: from the Amtrak Performance Tracking system. Amtrak will provide States with an estimate of planned overhaul work at the beginning of a contract period and will reconcile the planned usage to actual work performed and actual equipment used in a State's service
	Other mechanical expense	Wreck repair, facility improvements, equipment engineering and design, general safety & reliability, mechanical IT projects	Not charged to States
Other Fixed Assets	Fixed Assets used in State Services	Includes assets such as Amtrak-owned rights of way, large terminals, stations, and other	To be handled on a case-by-case basis between Amtrak and State partners

Appendix F: State-Amtrak Contract Template

Contract Outline

Effective Date: Contracts aligned to match each Agency's fiscal year

Parties: State Intercity Passenger Rail (IPR) Agency and Amtrak

Recitals/Boilerplate:

Section 1: Services to be Provided (multiple state funded services can be co-mingled under one agreement):

- Description of Amtrak Services and Service Standards {unique to each State}
- Train Schedule and Route Description {Train Service Schedules (including Connecting Bus Service, if applicable) detailed in appendix}
- Service Standards (see appendices) [Optional and specific to each State IPR Agency]
- Monitor the fiscal performance of the service/quarterly meetings (budget vs. actual)

Section 2: Decisions Affecting Service:

- Include Agency in discussions with railroads or appropriate regional rail authorities regarding schedule changes which impact service.
- Apprise Agency of any bargaining provisions that may impact service

Section 3: Amount of Reimbursement by the State IPR Agency:

- Agency's total financial obligation to Amtrak for the stated contract term shall be defined in terms of the following elements as part of the Section 209 Policy:
  - Service Fee—including Route Costs and Additives (including General & Administrative costs)
  - Third Party Costs—including fuel, host railroad access fees and incentive performance payments.
  - Other Special Cost Items as agreed upon between Amtrak and the Agency
  - Passenger Related Revenue—including ticket revenues, food and beverage revenues and other allocated revenues. These revenues are offsets from the above cost categories
  - Agency payment is the sum of the Service Fee, Third Party Costs, Other Special Costs Items with a credit for Passenger Related Revenue
- Forecasting financial elements always entails some risk as costs and/or revenues may vary from the forecasts. Amtrak and the Agency will determine the procedure for handling variances from forecasts during contract negotiations and, in particular, which party takes the risk for variances for each cost category. Options for managing and assigning variance risk are noted below:
  - Service Fee. Amtrak will make forecasts for the Service Fee. The assignment of variance risk will be subject to negotiation among the parties.
  - Third Party Costs. By definition, these costs are passed through Amtrak directly to the Agency. While Amtrak will make forecasts for these costs, the Agency will reimburse Amtrak for the actual amount of these costs whether they are lower than or higher than the Amtrak estimates

- Other Special Cost Items. These cost items will be negotiated between Amtrak and the Agency with the management of the variance between forecast and actual expenses governed in accordance with the particular arrangement between the parties
- Passenger Related Revenue. Amtrak will make forecasts for these items and the assignment of variance risk will be subject to negotiation among the parties.

Section 4: Manner of Reimbursement:

- Agency will pay Amtrak in accordance with the monthly payment schedule provided service operates at a deficit (see appendices)
- Invoices shall be rendered not less than forty-five (45) days prior to the due date.
- Force majeure
- Monthly Reconciliation Statements to State IPR Agency
- Remedies in the event that Amtrak fails to perform the services as required by this Agreement or Amtrak fails to provide revenue credits or carryover excess contract revenues
- Remedies in the event the State IPR fails to provide payment to Amtrak

Section 5: Defense of Claims {may vary due to scope of work}

Section 6: Inspection and Audit:

- Agency has the right to inspect the rail passenger and bus feeder services, facilities and equipment provided for service subject to adequate notice
- Amtrak shall provide the number of passengers carried and passenger miles operated for each train as well as other service-related reports as agreed-to by Amtrak and the Agency. Such data shall be computed and furnished on a monthly basis as described in the appendices (varies by State).

Section 7: Dispute Resolution {May vary}

Section 8: Force Majeure

- The obligations of Amtrak hereunder shall be subject to force majeure.

Section 9: Termination

Section 10: Notices

Section 11: Agreement Content

Section 12: Construction {May vary by State}

Section 13: Severability

Section 14: Compliance with Collective Bargaining Agreements {NEEDS FURTHER ATTENTION}

- The State acknowledges the existence of collective bargaining agreements between Amtrak and certain labor organizations representing certain of Amtrak's employees, and agrees that Amtrak will provide the

Service in a manner consistent with its obligations and rights under such agreements, as they may exist from time to time.

Section 15: State-Required Provisions (unique to each State):

- Appropriation of Funds
- Non-Discrimination
- Fair Employment Practices
- Contractor Integrity

Signature Blocks

Appendices: (contents and number of appendices will vary by State):

- National Section 209 Policy
- Train Service Schedules (and Connecting Bus Service, if applicable)
- Budget
- Payment Schedule
- Examples of Services and Performance Standards {OPTIONAL}
  - Provision of Equipment—Availability and Condition
  - Equipment Maintenance Standards
  - Reliability of Service—On Time Performance
  - Maintenance of Stations
  - Crew Performance, Supervision and Standards
  - Food Service
  - Reservations/Call Center
  - Marketing Support
  - Other Services

Exhibit R

ISSUE BRIEF
PRIIA Section 209 Intercity Passenger Rail Service

Establishing Standard Pricing Policies Annual Operating Costs and Capital Charges

Prepared for PRIIA 209 States and Other Interested States by
The States Working Group (SWG):

AASHTO
Capitol Corridor Joint Powers Authority (California)
North Carolina DOT
Northern New England Passenger Rail Authority (NNEPRA)
Virginia Department of Rail and Public Transportation (DRPT)
Wisconsin Department of Transportation (WisDOT)

June 10, 2011

Establishing Standard Pricing Policies – Annual Operating Costs and Capital Charges

Issue Brief

PRIIA Section 209 Overview

Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) (Public Law No. 110-432, Division B, enacted October 16, 2008) directs the states and Amtrak to "develop and implement a single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak" related to trains that operate on corridors of 750 miles or less. The intent of Section 209 is to ensure that Amtrak treats all states equally and to allocate to each route a proportionate set of costs that reflect the routes' relative use.

The State Context

State-developed conventional speed and high speed intercity passenger rail operations are an integral element of the Amtrak's intercity passenger rail (IPR) network. These 750-mile or less IPR trains generally operate in corridors within a single state or connect two states and serve intermediate-distance trips. State corridor routes provide a valuable alternative to air or auto travel. Amtrak's statutory right of access over the freight railroads has in the past allowed states to receive these services at relatively low cost.

Today, Amtrak provides state-supported passenger rail service in 15 states, generally offering a turnkey operation that may include rolling stock, on-board operating crews, station staff, management and administrative support, maintenance of equipment, maintenance of way (tracks and signals) on Amtrak-owned tracks, marketing and advertising, reservation sales, and ticketing. The 1970 Rail Passenger Services Act (RPSA) created the framework for individual states to request these additional rail services, and Section 403(b) of the RPSA *allowed* Amtrak to be reimbursed by the states for these services. This new Section 209 policy establishes that the operating losses of a corridor service must be covered through a combination of farebox revenues and state support.

The policy, developed under Section 403(b) has led to variation in how Amtrak charges states for the route service. Currently, some states, due to prior arrangements with Amtrak or historical circumstances, pay nothing or a partial share of their route costs (**Attachment A**) while other states pay the 100 percent of their costs. Nationally, Amtrak receives approximately $191 million per year from 15 States for 27 IPR routes. On an average weekday, the service level is 110 trains operating on these 27 state routes; 36 of the 110 trains are not supported by states. In other words, States are paying the costs (total expenses less revenues) of 74 weekday trains with Amtrak picking up the costs for 36 weekday trains (**Attachment B**).

Purpose of Section 209

Congress, under the provisions of PRIIA Section 209, established that all states must pay the operating costs and capital charges associated with their corridor route. Amtrak and states have been charged with collaboratively creating an operating cost methodology that "allocates to each route the costs incurred for the benefit of that route and a proportionate share, based upon factors that reasonably reflect use, of costs incurred for the benefit of more than 1 route plus an annual capital charge for Amtrak-owned equipment and facilities used for these IPR trains. Once Section 209 is implemented, the current 36 trains that has historically been paid by Amtrak will now become state-supported IPR trains consistent with the other 74 state–supported IPR trains or ceases to operate. In addition, all corridor state supported routes will be treated in a fair and equitable manner.

State and Authority Budget Impacts of Section 209 Policy

States need a consistent budget planning process with Amtrak to develop costs and revenues for IPR services, which, in turn, will help states secure stable, predictable funding sources to support and expand Amtrak-operated, state-supported IPR trains. Such efforts are critical in supporting state policy-makers as they initiate long-term planning and investment strategies to properly understand current costs and to project costs associated with future regional intercity passenger service as part of states' multi-modal transportation investment plans.

The direct benefits of IPR investment include: continued existing regional IPR service, reduced train travel times, increased service frequencies, and reliable schedules that build ridership and reduce operating costs. Indirect benefits include reduced traffic congestion, improved regional air quality, job creation and economic growth.

Just as notably, recent federal actions have placed IPR train services in the forefront of a comprehensive national transportation policy framework. In the past several years, Federal Railroad Administration (FRA) has developed and administered the new Capital Assistance to States - Intercity Passenger Rail Service program. The program focuses on projects that lead to on-time performance of at least 80 percent (FRA has required greater than 80% in its contract negotiations with states), reduced travel times, increased service frequency or enhanced service quality for intercity rail passengers. One of the more notable requirements to receive these capital grant funds from the FRA is that no federal funds will be used to support the operation of these new or upgraded IPR routes. All operating funds must be supported by state or local sources. The definition and examination of the operating funding requirements is directly linked to the costing established in PRIIA Section 209. FRA has proposed a concept of providing a transitional operating grant program to states that is still under discussion at the federal level.

PRIIA Section 209 Pricing Policy

The focus of Section 209 is for the Amtrak Board of Directors to develop a single, nationwide standard methodology in consultation with the US DOT Secretary and the Governors of each relevant state. The methodology will "establish and allocate operating and capital costs among the states and Amtrak associated with trains operated on each route." The deadline, established in the 2008 law, for an agreement between states and Amtrak was October 16, 2010. Under Section 209, if Amtrak and the states "do not voluntarily" adopt and implement a methodology by the deadline

outlined in statute (October 16, 2010), the matter is referred to the Surface Transportation Board (STB) which "shall determine the appropriate methodology required for the provision of service."

While PRIIA passed in October, 2008, this effort between Amtrak and the states really began nineteen months later in April, 2010 with the first national meeting of Amtrak and the affected states. Between April and September, 2010, Amtrak worked to familiarize the states with their new FRA-funded cost allocation system – Amtrak Performance Tracking (APT) – and offered alternative methodologies on operating cost allocation. In addition, in mid-September, Amtrak shared with states their initial proposal on a capital charge methodology.

Amtrak and the states met in September 2010 and agreed it was not in the best interests of either to have this issue decided by the STB. The States for Passenger Rail (SPRC), the AASHTO Standing Committee on Rail Transportation (SCORT) and Amtrak agreed that neither would seek relief from STB for six months, creating a new deadline of April 16, 2011. In light of the compressed deadline, the SCORT and SPRC chairs appointed a States Working Group (SWG) to work with Amtrak on behalf of the states. The members of the SWG include: Maine (NNEPRA), California (Capitol Corridor), North Carolina DOT, Virginia DRPT, Wisconsin DOT, and AASHTO staff. Amtrak and the SWG agree that Section 209 policy needs to be simple, comprehensive, fair and equitable for states that have existing IPR corridor service and for states that plan to implement IPR train service. While progress continues in the discussions on the development of the policy for Section 209, the parties agreed to extend the deadline an additional two months to June 16, 2011 in order to complete the policy and submit it to the affected States.

The Development of the 209 Pricing Policy:

October 2010 – December 2010: Framing the Policy Discussion

In October of 2010, the SWG began reviewing and evaluating the cost proposals provided by Amtrak and collaborating with States to develop a consensus on the policy and implementation of PRIIA Section 209. A set of principles was developed and shared with Amtrak at the first meeting to guide the discussion. (Attachment C).

In late November, the SWG coordinated with AASHTO's Standing Committee on Rail Transportation (SCORT) to conduct a survey on passenger rail operation funding. Surveys were sent to all states that will be affected by Section 209 policy. Most states responded to the survey and those responses provided critical guidance to the SWG as it moved forward on developing an alternative methodology for allocating costs. A summary of the completed surveys can be found in **Attachment D**.

Some of the common themes in the survey responses include:

- Support for paying 100 percent of Amtrak direct costs as long as there is a transparent means to review costs and develop budgets;

- Concern with Amtrak's ability to define and adequately capture and fairly allocate shared/indirect costs;

- Belief that Amtrak's proposed capital cost charges to states be only those costs associated with supporting IPR trains (such as rolling stock, stations, and maintenance facilities).

As the SWG and Amtrak continued to meet over the next few months, the survey responses in conjunction with the basic principles (**Attachment C**) guided the development of the Section 209 policy.

In their first two sets of meetings, held in October and December of 2010, the SWG and Amtrak made significant progress. The meetings were cordial and professional; both the SWG and Amtrak have demonstrated genuine interest in meeting the April 16, 2011 deadline. Feedback from the 209 states and responses to the SWG survey were very useful in reaching agreement on basic principles of a new pricing methodology. Below is *a summary of key issues addressed at first two meeting between the SWG and Amtrak:*

- Amtrak and the SWG acknowledged that the policy needs to consider the significant and adverse impacts of increased annual operating and capital costs that could result from this policy. These increases could force states to cut successful Amtrak-operated IPR services just as they complete ARRA/HSIPR capital construction projects to increase capacity for passenger rail service.

- While some IPR sponsors have outsourced elements such as food service, maintenance, and call center services, Amtrak is currently the sole operator of intercity passenger rail service. As such, the SWG focused on ensuring that Amtrak commits to implementing cost savings and efficiencies to keep its operational costs stabilized.

- One of the key elements of discussion was Amtrak's shared (or supporting) costs, particularly the General and Administrative (G&A) cost category. Amtrak's policies A and B both included high shared costs compared to direct costs – ranging from under 50 percent of direct costs for some states to over 150 percent of direct costs for other states. Amtrak and SWG discussed whether national G&A costs should be included in any pricing policy for Section 209 or if G&A costs should be supported through federal support for the national passenger railroad system.

- Working with the FRA and the Volpe Center, Amtrak has developed the APT cost allocation system which will serve as the baseline for determining state costs. It is Amtrak's view that APT provides a more transparent system compared to the prior Amtrak cost allocation system. For the most part, the APT system does appear to provide better detail with respect to those costs that directly support a state IPR train route (such as train and engine crews, food service, maintenance of equipment). However, APT has not been verified by the U.S. Inspector General's office, as required under PRIIA, and an audit of the system will not be complete prior to October 2011. To that end, both Amtrak and the SWG have agreed that Amtrak will make any modification suggested by the IG report that would affect the states' route cost allocations. In addition, APT will continue to be refined and improved each year. This will allow the parties to modify operating costs on an annual basis, which in the long-term will provide an improved, transparent budgeting process.

- Not all states had received all the updated APT information necessary to both evaluate and raise issues with the Amtrak data. In addition, the SWG requested that as new cost proposals were made that Amtrak recalculate operating and capital costs and make them available to all states. The SWG wants to assure that all states have adequate time to review their information and make necessary adjustments on their information with Amtrak.

- While the SWG and Amtrak have reached some consensus on a direct cost structure, open issues include cost structure for indirect/shared/support costs and capital charges that directly support a route versus those charges to support the national system.

- Amtrak agreed in the December 2010 meeting to modify their approach to capital charges. Amtrak's first proposal suggested that capital charges were to be based on the depreciation of all Amtrak assets and allocated among States. Amtrak further proposed that the capital charges paid by States be kept in a "lock box" for future investment in the route(s) sponsored by that State. The SWG suggested and Amtrak concurred that capital charges would be assessed only on assets used by a particular route, for instance equipment and stations. Additional elements of the capital charge methodology remained open for discussion.

January 2011 – March 2011: Peer State Review and SWG Proposal

The SWG and Amtrak continued to work to develop a methodology that is equitable to both parties. Efforts were aimed at refocusing how shared – or support costs – will be allocated to the states. The SWG developed a proposal for Amtrak's consideration that significantly changed the method for allocating shared costs and pricing IPR services, but provided States with more transparency and cost control of their Amtrak services.

During January 2011, the SWG developed and vetted an alternative pricing methodology to Amtrak's Policies A and B with states. The process included several conference calls followed by meetings in Washington D.C. The SWG received States approval to move forward, and presented the new proposed methodology to Amtrak staff in early February 2011.

The primary objectives associated with SWG proposal were to establish a pricing mechanism which:

- Fairly and appropriately allocates costs to states
- Is less than what has been described by Amtrak as "Fully Allocated Costs"
- Sustains the level of funding currently provided by States that currently support the "whole costs" of their routes.
- Defines and gives States more control and a better understanding of the specific corridor costs (Route Costs)
- Assigns overhead/non specific costs (Support Fees) as a percentage, based on the level of service provided, not as a share of what Amtrak spends.

Key elements of the SWG Operating Cost proposal:

- Route Operating Costs. Under the proposed SWG methodology, states pay 100 percent of the verifiable "route operating costs" (a combination of direct and shared costs which are directly associated with the operation of a route) associated with a corridor service.

- Support Fees. Under the SWG methodology states pay "support fees" (instead of shared costs) in proportion to route costs which will cover overhead and other shared expenses. Support fees will be assessed in the form of "additives" applied to cost families of route costs or other service elements. The additives suggested by the SWG in the initial proposal were based on an analysis of Amtrak's APT cost ranges for various families of services.

Amtrak staff briefed the Amtrak Board of Directors on the SWG proposal and indicted their support for the overall approach, indicating they would provide alternative approaches to the SWG in the coming weeks, particularly focusing on further analysis of the SWG recommendation on multipliers. (See Attachment G)

- Issues for further consideration associated with operating costs. While great progress had been made on the route and support cost issues, both the SWG and Amtrak believed that further detailed analysis be completed on the allocation of:
    1. Station costs where several corridor routes share a large Amtrak stations, e.g. Chicago Union Station,
    2. The approach for allocating through revenue or the allocation of revenues and costs associated with corridor trains along the Northeast Corridor that may move in and out of the corridor, and
    3. Connecting motorcoach services.

Key elements of the developing Capital Cost proposal:

The capital cost policy was modified to state that costs would only be assessed on Amtrak assets specifically used by a route, with credit given for investments made in Amtrak assets. These capital payments by the States will be reinvested in assets which the state/agency and Amtrak mutually agree will benefit the route.

- Issues for further consideration associated with capital costs. By March 2010, Amtrak had not provided states with their revised capital cost estimates so that states can have time to ask appropriate questions and provide feedback on their revised numbers. In addition, states need to assess the workability of Amtrak's lock box concept on capital costs.

Amtrak indicated they will make their best efforts to provide all Section 209 states with their updated capital cost numbers by the end of February.

More Time Needed to Complete Policy

By late March Amtrak and the SWG recognized that they will need a couple additional months to complete work on the Section 209 cost allocation methodology. As outlined in their February 18, 2011 memo to the SWG **(Attachment G)**, Amtrak has indicated to the SWG that they want to work with the SWG to "come to a mutually agreeable

understanding on a schedule that keeps the momentum up but permits us enough time to complete the process effectively."

April 2011-May 2011: Amtrak Analysis and Policy Development

In April 2011, Amtrak responded to the SWG with their analysis of the operating cost proposal, recommendations regarding additives, and a new approach to capital costs.

Operating Costs: Amtrak again concurred that they were willing to move forward with the Route Cost/Additive model to determine the pricing of route operating costs. They made a series of recommendations for additives which were reviewed by the SWG.

Capital Costs: Amtrak, based on discussions with some states, modified their approach to capital costs, and determined that instead of charging states for the depreciation of assets they would work with states to develop a capital maintenance program, and charge states, based on units used, for the capital investments made in the Amtrak assets used to support specific routes and keep these assets in a State of Good Repair (SGR). These capital charges could possibility be available for a federal matching program through the FRA. The source of funds and program would need to be developed with Amtrak, FRA and the Section 209 States.

In early May, Amtrak and the SWG met for a two-day meeting where final agreement was reached regarding route costs, additives, and capital costs. The chart on the following page (S209 Operating Cost Pricing Methodology) illustrates the basic elements of operating cost calculations resulting from the May meeting.

Contracts. Both Amtrak and the SWG agree that all parties would benefit from a standardized contract outline. For states, the contract outline can serve as a check list of service choices and formats that states can choose to best fit their needs and which gives states options. For Amtrak, the standardized contract can save time for Amtrak staff in identifying issues based on a common set of issues, saving Amtrak staff time and resources.

- Issues for further consideration associated with contracts. The SWG and Amtrak have developed a draft contract template, but haven't had time to properly review the draft with the States. Once the larger issues are addressed, the SWG will work with the states and Amtrak to address the contracts issue.

In late May, Amtrak and the SWG began drafting a policy packet to be transmitted to states in early June along with their operating and capital costs as outlined by the 209 Policy.

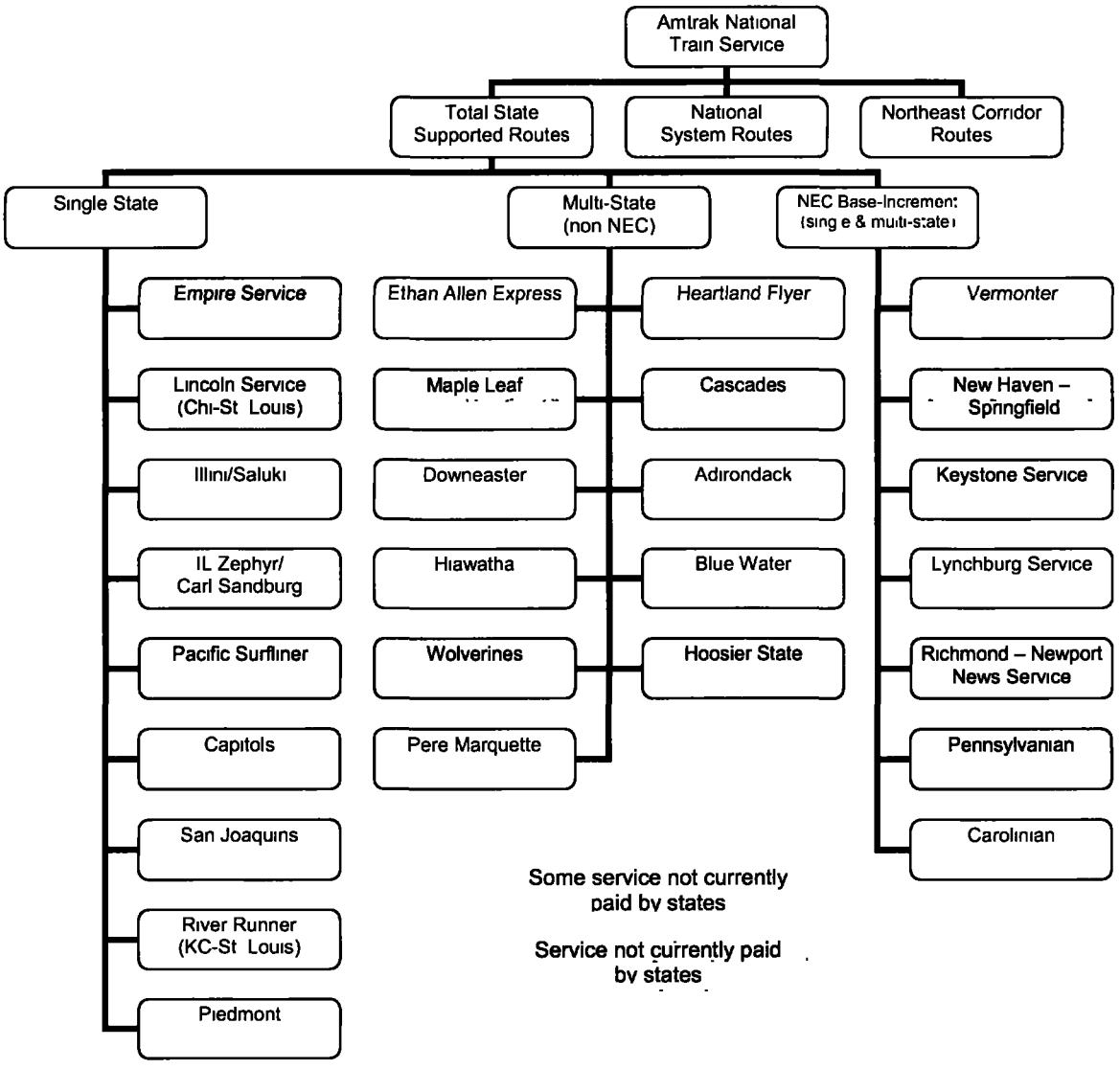
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S209 Operating Cost Pricing Methodology

ROUTE COSTS	+	SUPPORT FEE	=	OPERATING COSTS
Train & Engine Crew Labor		*T&E Route x (Division Additive* + System Additive (12.9%)*	=	Total Train & Engine Crew Labor
Car & Locomotive Maintenance & Turnaround	+	*Car & Loco Route Cost X System Additive (27%)*	=	Total Maintenance of Equipment
On Board Service (OBS) Crew & Provisions	+	*OBS Route Cost x 10% OBS Additive*	=	Total On Board Services
Route Advertising			=	Total Route Advertising
Sales & Distribution	+	*Marketing Additive* x Passenger and Allocated Revenue**	=	Total Sales & Marketing
Reservations & Call Centers			=	Total Res & Call Center
Stations – Route			=	Total Route Stations
Station – Shared			=	Total Shared Stations
Commissions			=	Total Commissions
Customer Concessions			=	Total Concessions
Connecting Motor Coach			=	Total Motor Coach
Regional/Local Police	+	*Passenger Miles x Police Additive ($0.005)*	=	Total Police & Security
Terminal Yard Operations			=	Total Terminal Yard Ops
Terminal Maintenance of Way			=	Total Terminal MoW
Insurance			=	Total Insurance
Total Route Costs *(Sum of Above)*	+	*Total Route Costs x General & Administration Additive (2%)*	=	General & Administrative
				Route Service Fee *(Sum of Above)*
		Host RR Maintenance of Way + Host RR Performance + Fuel & Power	+	3rd Party Costs
			=	**Total Operating Costs** *Service Fee + 3rd Party Costs*
			-	Less Passenger and Other Allocated Revenue
			=	**NET STATE COST**

**Denotes variable additive. Reference Appendix D*

ATTACHMENT A
Segmentation of Amtrak's National Train Service



ATTACHMENT B
Amtrak State Corridor Routes

Amtrak State Corridor Routes
11/1/2010

	Route	Route Territory	Approx. Weekday Round Trips[1]	Historical State Sponsor	Approx. Trains Supported	Unsupported Weekday Round Trips
East	Ethan Allen Express	VT, NY	1	VT	1	-
	Vermonter	VT, MA, NEC	1	VT	1	-
	Maple Leaf	NY, ON	1	-	-	1
	Empire Service	NY	9	-	-	9
	Adirondack	NY, QC	1	NY	1	-
	Downeaster	ME, NH, MA	5	ME (NNEPRA[2])	5	-
	New Haven-Springfield	CT, MA, NEC	5	-	-	5
	Keystone Service	PA, NEC	13	PA	6.6	6.4
	Pennsylvanian	PA, NEC	1	-	-	1
	Washington-Lynchburg	VA, NEC	1	VA	1	-
	Washington-Newport News	VA, NEC	5	\ \	1	4
	Carolinian	NC, VA, NEC	1	NC	1	-
	Piedmont	NC	2	NC	2	-
Midwest	Lincoln Service (Chi-St. Louis)	IL, MO	4	IL	3	1
	Illini/Saluki	IL	2	IL	2	-
	Illinois Zephyr/Carl Sandburg	IL	2	IL	2	-
	Hiawathas	WI, IL	7	WI, IL	7	-
	Wolverines	MI, IN, IL	3	-	-	3
	Blue Water	MI, IN, IL	1	MI	1	-
	Pere Marquette	MI, IN, IL	1	MI	1	-
	Heartland Flyer	OK, TX	1	OK, TX	1	-
	Hoosier State	IL, IN	< 1	-	-	< 1
	Mo River Runner (KC-St. Louis)	MO	2	MO	2	-
West	Pacific Surfliner	CA	12	CA	8 4	3 6
	San Joaquins	CA	6	CA	6	-
	Capitol Corridor	CA	16	CA (CCJPA[2])	16	-
	Cascades	OR, WA	6	OR, WA	5	1
	27 routes		110			36

Summary of Round Trips Not Currently State Supported

Primary Route Territory	Route(s)	
New York	Empire Service, Maple Leaf	10
Pennsylvania	Keystone, Pennsylvanian	7.4
Connecticut/Massachusetts	New Haven-Springfield	5
Virginia	Newport News	4
California	Pacific Surfliner	3 6
Michigan	Wolverines	3
Illinois	Chicago-St. Louis	1
Oregon/Washington	Cascades	1
Indiana	Hoosier State	1
		36

Notes
1. Routes with multiple daily round trips may have a different schedules for weekdays, weekends, and in each direction.
2. NNEPRA - Northern New England Passenger Rail Authority. CCJPA - Capitol Corridor Joint Powers Authority
Trains sharing segments with other routes are counted only once (e.g., Ethan Allen Express, Pennsylvanian)

ATTACHMENT C
Statement of Principles on PRIIA Section 209 Policy
Cost Sharing and Allocation-State-Supported Intercity Passenger Rail Services
State Departments of Transportation and Amtrak
Developed October 2010

Policy Goals and Objectives

The Passenger Rail Investment and Improvement Act (PRIIA) (Public Law No. 110-432, Division B, enacted October 16, 2008) of 2008 establishes a planning structure and funding to support expanded intercity passenger rail service, and outlines roles and responsibilities for the federal government, the states, the freight railroads and Amtrak in delivering new or continued passenger rail service. Included among the new shared responsibilities (in Section 209) is the development and implementation of a new methodology "for establishing and allocating operating and capital costs among the states and Amtrak." A mutual goal in implementing this provision is to establish a transparent, rigorous methodology which is consistent with generally accepted accounting principles, as well as a collaborative and standardized process for future reporting and adjustment. Ultimately, the broader mutual goal is to ensure a well-funded, cost-efficient, customer-based, robust system of intercity passenger rail services throughout the nation.

Principles

- ***Accounting*** – Costs are dynamic and subject to constant change. Therefore, it is essential to establish, as part of the regular budget process, a system of providing to the states, at the start of the budget process, updated projections in the Amtrak's Performance Tracking (APT) System, including

    a. Detailed budget sheets for all services/routes
    b. Third Party costs
    c. Route-specific and shared costs
    d. Descriptions of cost fluctuations

- ***Inspector General (IG) Review*** – As APT is the foundation for the Section 209 policy, any changes to the APT system which may result from a review by the DOT IG will be incorporated into a revised cost sharing methodology, and reflected in revisions to the cost sharing policy. Any future adaptations or upgrades or revisions to the APT system will, as necessary, be incorporated into the cost sharing policy.
- ***Direct Costs*** – Charges for direct costs should be determined as a percentage of such direct costs as provided through the APT system. Third party costs, including for example, host railroad fees, fuel, railroad incentive payments or on non-Amtrak resources, will not be included in the direct cost calculations.
- **Expenses for States Supporting 100% of Route Trains** - The total expenses for States that are currently supporting all trains within a route will not increase by more the cost of inflation.
- ***Supporting/Overhead Costs*** – States will pay a proportionate share of any shared costs for a route based on their proportionate share of direct costs with the following provisos --

a. The proportionate share will be based on no more than 100 % of direct costs;
b. Third Party costs should not be included in the shared cost calculations; and
c. The calculation should be based on a simple formula using attributes for expenses shared with other Amtrak routes.

- ***Capital Charges*** - Amtrak should accelerate the schedule for distribution of capital charge data to the states, by no later than December 31, 2010, and should provide detailed and verifiable data regarding capital costs. In the future, this detailed information should be provided in advance of any state meetings to develop cost sharing agreements.

- ***Revenues*** – All revenue collected on a state-supported train should be credited to that state. Shared and direct revenues will be regularly reported, transparent and be based on generally accepted accounting principles.

- ***Performance Guarantees/Standards*** – Service standards or guarantees should be established in order to link state fees and charges to the level and quality of service provided. Standards may include, for example:
    - Customer Satisfaction Scores
    - Non-performance in areas of mechanical, revenue collection, customer service
    - Standards of conduct for train crews and station agents
    - Reviews or audits of equipment readiness and availability
    - Employee incentive programs

- ***Time lines and Milestones*** – By December 31, 2010, Amtrak will:
    - Hold meetings with the states on the most recent available Federal Fiscal Year Data
    - Provide to the states APT projections for FY 2010 for direct and supporting/ shared costs and capital charges
    - Provide to the states detailed budget information for all routes including NEC, state-supported and long distance
    - Provide revised expenses and estimated costs for affected State-supported IPR routes based on the Principles set forth above

ATTACHMENT D

State Survey regarding PRIIA 209 Policy Objectives and Summary of State Responses November 2010

PRIIA Section 209 State Opinion Survey

In an effort to gather input related to specific issues associated with the **PRIIA Section 209** implementation, the State Working Group (SWG) is asking States to complete the following survey and return to Shayne Gil by COB on Monday, November 29, 2010. Please highlight your preferred response to each question.

Please tell us who you are:

- What State & Amtrak Route(s) do you represent?
- Name of person completing form:
- Title of person completing form:
- Email & Phone Number of person completing form:

1. **ACCCOUNTING:**

   Question 1: From a policy perspective, are you in agreement with Amtrak's position regarding Accounting as stated in the Statement of Principles, Side-by-Side Analysis?

   Yes No Other *(please provide your input)*:

2. **IG REVIEW:**

   Question 2: From a policy perspective, are you in agreement with Amtrak's position regarding IG Review as stated in the Statement of Principles, Side-by-Side Analysis?

   Yes No Other *(please provide your input)*:

3. **DIRECT COSTS**

Direct Costs are defined as the costs incurred only for the benefit of a particular route.
They include:

- Train & Engine Crew Labor
- On Board Service Labor & Support
- *Host Railroad Maintenance of Way*
- *Host Railroad Performance Incentives*
- *Fuel & Power*
- Commissary Provisions & Management
- Car & Locomotive Maintenance and Turnaround
- Direct Advertising
- Commissions
- Reservations & Call Centers
- Customer Concession
- Connective Motor Coach
- Route specific Stations

Question 3A : From a policy perspective do you agree that States should pay 100% of the Direct Costs associated with the routes serving their states as long as the state is in agreement that the Direct Costs being allocated to their state is correct and appropriate for the level of service being provided?

Yes No Other *(please provide your input)*:

Question 3B : Host Railroad Maintenance of Way, Host Railroad Performance Incentives, and Fuel & Power, are *"3rd Party Costs"* which are paid to Amtrak and then passed through to the host railroad and fuel provider at cost. From a policy perspective, do you agree that the value of the *3rd Party Costs* for a particular route should not be included in any calculations used to determine shared costs?

Yes No Other *(please provide your input)*:

4. **EXPENSES for STATES SUPPORTING 100% ROUTE TRAINS**

Question 4 : From a policy perspective do you agree that costs to States currently supporting all trains within a route should not initially increase more than the cost of inflation, and that any other justifiable cost increases which may apply, as agreed upon in the S209 Policy, would be transitioned based on a specific schedule agreed upon by Amtrak and the State.

Yes No Other *(please provide your input)*:

5. **SUPPORTING/OVERHEAD/ SHARED COSTS:**

Shared Costs are defined as costs incurred for the common benefit of more than one route. According to PRIIA 209, States should pay a proportionate share of Shared Costs based on factors that reasonably reflect relative use.

The categories of Shared Costs Include:

- Shared Stations
- MoE Supervision Training & Overhead
- MoW Support
- Yard Operations
- Marketing and Distriubtion
- Police, Environmental & Safety
- T&E Overhead and Operations Mangement
- Utilities
- *General & Administrative – State Supported*
- *General & Administrative- Amtrak*

Question 5B: From a policy perspective, do you agree that the following categories should be included in state allocations?

- *G&A-State Supported* Yes No Comment:
- *G&A- Amtrak* Yes No Comment:

Question 5C: The APT system calculates what Amtrak spends in these categories and allocates shared costs to routes based on various formulas. From a Policy Perspective, do you agree that *(select one):*

a. States should pay a fee to cover shared costs based on a percentage of the Direct Costs for their route(s). This percentage will vary by route based on the specific characteristics of that route and will be based on allocations of APT.
b. States should pay a fee to cover shared costs based on another calculation such as Train Miles or Seat Miles.
c. None of the above. I suggest the following methodology to address the allocation of Shared Costs:

6. REVENUE:

Among State Supported Services, there are routes that operate independent of other Amtrak Routes and there are some which operate as part of other Amtrak Routes or NEC Services.

Question 6A: From a policy perspective, do you agree that in cases where there are state-supported and non state-supported legs associated with a specific route that revenue should be matched against expenses based on a cause and effect relationship and that the specific distribution of revenue between Amtrak and the impacted state(s) should determined on a route specific basis and documented in the operating agreement between the State and Amtrak.

Yes No Other *(please provide your input)*:

Question 6B: In some cases, ticket revenues for a particular route exceed the operating costs / service fee. From a policy perspective do you agree that the distribution of revenue in excess of operating costs/service fee should be addressed on a route specific basis and documented in the operating agreement between the State and Amtrak.

Yes No Other *(please provide your input)*:

7. CAPITAL CHARGES

Question 7a: The Capital Charge Policy which has been presented by Amtrak, charges states, based on a national allocation model, for capital assets in 3 categories: Equipment, Land & Track. From a policy perspective do you agree that capital charges should *only* be assessed on the equipment, land or track specifically used by a particular route.

Yes No Other/Comment:

Question 7b: The Amtrak policy also states that the capital charges paid by states will be set in an Amtrak account (lock box) and used for capital investment projects mutually agreed to between States and Amtrak. From a policy perspective, is your state legally authorized to pay a capital fee which will be set aside for a future, undetermined project?

Yes No Other/Comment:

8. PERFORMANCE GUARANTEES

Question 8: From a policy perspective, do you agree that performance guarantees should be incorporated into Amtrak/State agreements and that the specific details will be worked out later in the 209 process.

Yes No Other/Comment:

9. MANAGEMENT DECISIONS

Question 9a: Amtrak's decisions to make capital investments, agree to labor agreements or change operating systems will have a financial impact on states. From a policy perspective do you agree that Amtrak must consult with effected States before making a change in operations which impacts the operating costs (over the road and or station costs)and or the revenues for a state-sponsored train? Yes No Other/Comment:

Question 9b: If the impact on a state-sponsored train is negative, should Amtrak hold that state harmless? Yes No Other/Comment:

Question 9c: Do you agree that revenues and expenditures for all trains under a state operating agreement with Amtrak should be combined under one state contract?

Yes No Other/Comment:

10. MANAGEMENT DECISIONS

Question 10a: Given the agreed to 6 month extension, what have you done to prepare your state for Section 209 decisions and implementation?

Question 10b: Are there any other Policy Issues related specifically to Operating Costs/Revenues which should be addressed by the 209 Working Group at the next meeting?

Summary of State Responses to State Survey – November 2010

*Surveys were sent to the following states. An * indicated that the State responded to the Survey.*
California (CCJPA)*, Connecticut*, Maine (NNEPRA)*, Oklahoma, Missouri*, Wisconsin*, Illinois, Indiana, Michigan*, New York*, North Carolina*, Oregon*, Pennsylvania, Texas, Vermont, Virginia*, Washington*

Summary of Responses:

ACCOUNTING & Inspector General (IG)

- Most states agree with the Principles related to Accounting and the IG Review, but skepticism remains regarding confidence in Amtrak accounting and cost allocation.

DIRECT COSTS

- While most States agree in concept that States should pay 100% of Direct Costs, the lack of confidence in Amtrak accounting is keeping the others from concurrence.
- Even the Direct Cost line items contain significant shared cost elements, and the APT methodology does not make it easy, or even possible, for States to draw a direct correlation between the service they are receiving and the price they are paying.
- Amtrak/State Operating Agreements must specifically define the parameters of services being purchased, for instance, consistent size and crew size. There are also other factors which need to be considered such as the level of management and oversight specifically associated with each service.
- There is overlap between Direct and Shared Costs.
- States want more input into the service they are paying for and want a better understanding of where costs are coming from
- States want to be involved in the negotiation of 3rd party contracts with host railroads so they understand the performance levels and payment structures.
- It is possible to get State agreement on 100% costs, but only with more definition and transparency provided by Amtrak regarding true direct costs.

SHARED COSTS

- There is unanimous concern about Shared Costs and most states concur that Shared Costs should be allocated based on a formula.
- The concept of a Percentage of Direct Costs is well received, although this concept ties closely to Direct Costs.
- A suggestion was made to consider a hybrid which assesses costs in 3 levels – Direct, Shared and Overhead.
- States agree that shared costs should be allocated based on a formula of some sort. The challenge is finding that formula.

Proposed Action Item: Review and enhance the definition of each line item in such a way that it is clear which costs are truly direct, which are shared, and how they are allocated. With a proper understanding and reporting of Direct and Shared Costs, it will be easier to determine the formula for payment and to get agreement from States.

REVENUE

- The distribution of revenue between Amtrak and States can become very complex and many states believe that State services contribute to the national system beyond the state boundaries.
- In general, States concur that the specific model for distribution or ticket revenues should be NEGOTATED and AGREED UPON between Amtrak and the sponsor State and outlined in the Operating Agreement.
- States also concur that Operating Agreements should address the distribution of revenues in excess of the State Service Payment, with most requesting that the excess amount should be retained by the State(s).

CAPITAL

- States remain confused by the Capital Charge Policy provided by Amtrak. There is much concern regarding how capital charges are derived, how the amount is determined, whether or not specific assets have already been depreciated.
- In general, States agree that they should only "pay" for assets used by their route.
- In addition to there being concern about the ability for a state to pre-pay capital expenses to Amtrak, the Lock Box concept is not well received by states.
- Who "owns" the money?
- How will the funds be distributed and what is the process for determining which projects qualify?
- How will states be credited for past investments?
- Should there be a forward looking Capital Plan, instead of a backward looking assessment on old assets?
- There is some support for capital charges/lease payments for Amtrak used equipment.
- In general, it will be impossible to get State agreement on the Capital Policy as proposed by Amtrak.

ACTION/DISCUSSION ITEM

- *Revisit the policy to understand the intention, Amtrak's goals and the ability of the states to comply.*
- *Discuss the potential for establishing capital plans with a cost sharing mechanism to meet capital needs*
- *Discuss the role of the Federal Government, FRA and the HSIPR Grant programs to address capital needs.*

PERFORMANCE GUARANTEES

- States agree that Amtrak should be accountable for delivering a specified level of service to sponsoring States.
- This should be put in the parking lot until a later date.

MAJOR PURCHASES/SERVICE CHANGES

- In general, states want input into decisions regarding all items which impact service levels or costs.
- States should be held harmless in instances where service changes are made which negatively impact a service.

MULTIPLE CONTRACTS

- States believe they should have the ability to combine multiple routes into one contract.

ATTACHMENT E

PRIIA Section 209 Policy Development Timeline, Public Outreach and Milestones

April 20-21, 2010	First national meeting of the PRIIA 209 States and Amtrak held in Chicago, IL. APT system introduced.
Summer 2010	Amtrak holds individual/regional meetings with the PRIIA 209 States tc explain APT and cost allocation methodology.
August 12, 2010	State call with Amtrak Pres. Boardman seeking 1 year extension to develop PRIIA 209 methodology.
August 16-17 2010	Second national meeting of the PRIIA 209 States in Chicago, IL.
August 19, 2010	States call with House T&I and Senate Commerce Staff.
August 24, 2010	States letter to Amtrak Board Chair Tom Carper seeking cooperation.
September 10, 2010	Amtrak provides first draft of annual Capital Charges.
September 19, 2010	States meet with Amtrak at AASHTO/SCORT/S4PRC meeting in Jacksonville, FL.
September 19, 2010	States establish Section 209 States Working Group to work with Amtrak.
October 1, 2010	Amtrak response letter regarding States Senate/House Letter.
October 7, 2010	States letter to Amtrak President in response to Amtrak 10/1/10 letter.
October 16, 2010	PRIIA Section 209 Statutory Deadline.
October 28-29, 2010	First meeting between Amtrak and SWG (Wash DC).
December 1-2, 2010	Meeting with Amtrak and SWG (Wash DC).
December 6, 2010	Brief 209 Overview provided to NE/NY Compact
December 9, 2010	SWG/Amtrak Working Committees (Cost Definitions, Contracts) established to address specific aspects of 209 Policy.
December 10, 2010	SWG Briefing Conference Call Mid-West Regional Rail Initiative
January 5-6, 2011	Meeting with Amtrak and SWG (Wash DC) to discuss new pricing scenarios.
January 5-6, 2011	SWG/Amtrak brief Congressional Staff
January 19, 2011	SWG Conference Call with States to discuss new Policy approach.
January 23, 2011	SWG presentation at S4PRC Meeting to further discuss Policy approach.
January 24, 2011	SWG/States Conference call to further discuss Policy approach.
January 24-25, 2011	SWG/Amtrak meeting to move forward with Policy approach.
February 4, 2011	Amtrak sends letters to 209 State transportation leadership to identifying S209 impacted states and informing them about the progression of new Policy development.

February 8, 2011	SWG/Amtrak Conference call regarding pricing proposal.
February 18, 2011	Amtrak responds positively to concept of initial SWG Pricing Proposal.
February 22, 2011	SWG updates FRA via Conference Call.
March–April 2011	Amtrak holds individual meetings with States to explain APT and pricing proposals.
March 3, 2011	Amtrak/SWG meeting to discuss Policy specifics
March 3, 2011	Amtrak/SWG brief FRA regarding 209 Policy direction
March 4, 2011	Amtrak/SWG present Policy concept at AASHTO IPR Leadership meeting in Washington DC.
March 14-15, 2011	SWG/Amtrak provide status update at SCORT Meeting in Washington DC.
March 16, 2011	Amtrak Board meeting – status update.
	SWG Update provided at NE/NY Compact Meeting
March 23, 2011	Brief overview of 209 Policy progression provided at NEC Corridor Commission Meeting, Wilmington, DE
April 13, 2011	SWG Briefing Conference Call Mid-West Regional Rail Initiative
April/May 2011	SWG and Amtrak work on Policy development & refinement of cos additives.
May 3, 2011	Amtrak/SWG present Policy concept at AASHTO IPR Leadership meeting in Washington DC.
May 11-12, 2011	SWG/Amtrak meeting to develop final cost allocation model and approve additives.
May 17, 2011	SWG Briefing to States during S4PRC Call.
May 23-June 3, 2011	SWG and Amtrak confer regularly to finalize Policy Package.
June 10, 2011	Amtrak and SWG release draft Policy Package to States.
June 15, 2011	SWG/States Conference Call to discuss Policy Package.
June 24, 2011	State comments on Draft Policy due.
July 2011	SWG/Amtrak incorporate State comments into final Policy to present to Amtrak Board for Vote. Final Policy will be transmitted to States for approval.
August 2011	Tentative Deadline for Policy approval by States.

ATTACHMENT F

Congressional Outreach
Summary of States Congressional Outreach on PRIIA Section 209 Implementation

In August 2010, states affected by the implementation of PRIIA Section 209 were concerned with the progress that had been made with Amtrak on the creation of a new cost methodology. The 209 states determined that the best course of action was to seek an extension of the October 16, 2010 deadline.

Since the deadline was established in statute, the representatives of the 209 states held conference calls with staffs from the House Transportation and Infrastructure Subcommittee on Railroads and the Senate Commerce Committee. The purpose of these calls was to provide an update on the status of the Section 209 effort and express states' concerns with the pending October 16, 2010 deadline. The states asked the staffs to consider amending law to allow for a one-year extension of Section 209 implementation.

After discussions with congressional staff and Amtrak, Amtrak and the states agreed to a voluntary six-month extension (April 16, 2011) before either party would petition the Surface Transportation Board (STB) to review the cost allocation methodology.

On January 5, 2011, the State Working Group (SWG) and Amtrak officials met with Senate Commerce majority and minority staff[1] to provide a progress report on the work of the 209 effort since August, 2010. The following day, the SWG and Amtrak officials met with the House Transportation and Infrastructure Committee majority and minority staff[2].

Both meetings focused on the efforts of the SWG and Amtrak to develop the cost allocation methodology required by the statute – our progress and continued challenges. Congressional staff expressed appreciation and optimism that the two parties were working together to reach agreement by the April 2011 deadline. The SWG and Amtrak highlighted their commitment to work on a methodology that will continue to support the success of the state supported corridor routes.

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[1] Senate Meeting attendees included: SWG Members representing (California) Capitol Corridors Joint Powers Authority, Northern New England Passenger Rail Authority, North Carolina DOT and Wisconsin DOT, AASHTO Staff and States for Passenger Rail Coalition Staff as well as members of Amtrak's PRIIA 209 Team/Government Affairs (Stephen Gardner, John Bennett, Max Johnson and Caroline Decker.) Senate Commerce staff included: Melissa Porter, John Drake, Ian Johnson, Taylor Woods, Dan Nuemann and Mike Meenan.

[2] Joyce Rose, Jennifer Esposito Homedy and Rachel Carr.

ATTACHMENT G

To: State Working Group
From: Amtrak Policy & Development
Date: February 18, 2011
Re: Response to Policy Proposal. February 8

Thank you for submitting your proposed PRIIA Section 209 operating pricing policy via e-mail on February 8. Our understanding of the key features of the policy is as follows:

- Costs are classified into 3 categories: Third Party Costs, Route Costs, and Other Costs. Third Party Costs consist of host railroad maintenance of way and performance incentives, and fuel. Route Costs consists of costs that States are generally able to "see and touch" on their routes, and costs that are easily understood and allocated.
- Third Party Costs will be charged to States. Route Costs will be charged to States, and Other Costs will not be charged to States.
- Additives will be charged to certain Route Cost line items in place of Other Costs. These additives will vary based on whether routes connect with the Northeast Corridor.

Areas of Agreement
We agree with your classification of costs into Third Party, Route, and Other. Between now and the conclusion of this Section 209 process, we may propose minor adjustments to this classification based on new information about how data flows through the APT system, but we do not think this is likely or that these changes will be material.

We agree with your approach of proposing multiple additives to Route Costs, and we also agree with the approach of including those additives only on selected Route Costs. We believe that limiting the number of additives will help keep this pricing approach simple and consistently applied, and will help ensure its long term success.

Next Steps for Amtrak
First, we agree that our State partners need updated financial data to evaluate the effects of these policy proposals. Due to our limited resources, we have experienced delays in providing all of this information. We will make our best efforts to provide all current and potential State partners with updated capital charge information, reflecting the results of Policy "D" (widely-allocated assets excluded) by Friday, February 25.

We will also make our best efforts to schedule meetings with States to discuss the updated capital charge, and updated operating results presented in the format of Third Party, Route, and Other Costs, by March 18.

For this policy to be successful, we must ensure that the additive rates we select are affordable to the States, fair to Amtrak, and that there is widespread understanding of what costs they intend to represent. Right now, those groups include the States and Amtrak departments responsible for the costs, but future stakeholders could include Inspectors General, auditors, the Surface Transportation Board, the Federal Railroad Administration, and others. To meet this standard, Amtrak must undertake a process of discussing and reviewing these rates among its relevant departments to determine their appropriateness, and will propose modified rates or categories back to the State Working Group, as appropriate. Additionally, Amtrak is reviewing the proposal that the additives be differentiated into only two groups: NEC-connected and non NEC-connected.

Open Issues for Discussion
At this point in the process, there are a few outstanding issues related to both the APT system and policy options.

- APT: Connecting motor coach. The revenues and costs from connecting motor coaches originate with an Amtrak Thruway bus number, which should allow them to be directly assigned not allocated to routes At this time it appears that there are system issues

with how these Thruway buses are being assigned to routes. While these issues are being resolved, all connecting motor coach revenues and expenses will be based on source data.

- APT/Policy: Station costs. At some larger stations where there is a mix of corridor and long distance service, some States are concerned that the corridor services are receiving a disproportionate share of costs Policy & Development will work with Amtrak Finance and applicable States to explore ways of allocating specific components of station expense in ways that reflect each service type's usage of those costs. If this is not possible in the APT system, Policy & Development will propose adjustments to the APT data adjusting for how different service types use stations.
- Policy: Through revenue. At this time, Amtrak is awaiting a proposal from the State Working Group on how to treat through revenue between State-supported services and the NEC. In the meantime. Policy & Development is working with Amtrak Revenue Management to gather additional information on this issue.

ATTACHMENT H



October 1, 2010

Honorable Frank J. Busalacchi
Chair, States for Passenger Rail Coalition
Secretary
Wisconsin Department of Transportation
PO Box 7910
Madison, Wisconsin 53707-7910

Honorable Eugene A. Conti, Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary
North Carolina Department of Transportation
Transportation Building
One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Busalacchi and Conti:

Thank you for providing us with a copy of your August 18 letter to Senator Rockefeller and Representative Oberstar.

We recognize that Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) contains requirements that are very challenging in the current economic and political climate and that states want and deserve adequate information to understand the impacts of any new methodology and sufficient time to consider its ramifications. As you expressed in your letter, your concerns about the new Amtrak Performance Tracking Cost (PTC) cost allocation system, the availability of capital cost data, and the general timing of the process present significant impediments to your members' voluntary adoption of any new methodology before the pending statutory deadline. Thus, you have asked Congress to consider extending the deadline for the states and Amtrak to agree on a methodology past the October 16 date established in Section 209. Such a delay would push back the date at which the parties could seek Surface Transportation Board (STB) resolution of this matter.

While we agree that all three of these factors have hampered our collective progress, we feel that none of these present insurmountable obstacles that should prevent us from coming to an agreement on a cost methodology within a reasonable period of time. We believe that such additional time was available to the parties to continue collaboratively pursuing this methodology simply by each party's agreement to refrain

ATTACHMENT H (continued)

AMTRAK

filing of the matter before the STB. Under our interpretation of the relevant statutes, STB jurisdiction over the matter will likely only be triggered by an application for relief by one of the parties. Amtrak's Board of Directors is willing to withhold seeking such relief for a period of six months following the October 16th deadline to allow us more time to reach agreement on a process and the parties agree on a process and schedule for the resolution of the remaining issues and work in good faith. As such, we do not believe that a legislative change to Section 209 is necessary at this time.

If the States for Passenger Rail Coalition and the Standing Committee on Rail Transportation are in agreement to defer any STB filings for six months after the October 16 deadline, we think it would be beneficial to all parties participating in the Section 209 process to memorialize this in a letter. We look forward to your favorable response and we appreciate the work you and your members have contributed to the Section 209 process.

Sincerely,

Joseph H. Boardman
President and Chief Executive Officer



October 15, 2010

Frank J. Busalacchi
Chair, States for Passenger Rail Coalition
Secretary, Wisconsin Department of Transportation

Eugene A. Conti Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary, North Carolina Department of Transportation

Dear Secretaries Busalacchi and Conti

President Boardman asked me to respond to your letter of October 7 with a revised proposal for a course of action in the likely event that we will not be able to meet the upcoming October 16, 2010 deadline as specified in Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). We appreciate your partnership in this endeavor and remain committed to working collaboratively with the States to complete our work on this important task.

Regarding your proposed 1 year time period for continuing our discussion, while we acknowledge that six months is an aggressive timetable for mutually developing a pricing policy, we believe we have a high chance of addressing the States' outstanding technical concerns within that timeframe. As such, we continue to believe that a six month extension period is appropriate for us to substantially conclude this part of the process with continued hard work from all parties. To that end, as of this writing, we have begun the process of sharing detailed capital data with impacted States.

As you indicate, some of our State partners will have new Governors this coming January. By that time, we will have spent three more months examining the detail behind the capital charge data and working to finalize any outstanding adjustments to the operating data. If we are able to continue our recent rate of progress, we should be in a position where much of the discussion about the underlying data is behind us and any remaining policy questions have been clearly defined. At that time, we believe that both new and incumbent Governors and their staffs will have three additional months to work with Amtrak on finalizing the pricing policy issues at the heart of the Section 209 process.

As we have discussed, changes to the adopted policy are allowed under the statute, so the policy may be revised over time. As APT is the foundation for the Section 209 policy, any changes to the APT system which may result from a review by the DOT IG would accordingly be incorporated into a revised cost sharing methodology and reflected in revisions to the policy.

AMTRAK

We applaud your creation of a Section 209 Working Group, and we think this will be helpful in continuing to move the process forward. We look forward to beginning our discussions with the Working Group in Washington, DC around the time of the October 27-28 Amtrak Board of Directors meeting. With respect to the information you requested in your recent letter, we will be pleased to provide this to you in detail at upcoming meetings, including revenue growth and cost containment efforts, and financial data for the Northeast Corridor and Long Distance operations.

As stated above, we are optimistic based on the recent progress we have made that in the next six months we will be able to resolve these issues. While we expect all parties to keep the momentum toward reaching agreement, we acknowledge the possibility that unforeseen difficulties might arise that could slow our expected pace but believe that the best time to address these and any necessary adjustments to our approach is as we near the end of the coming six month extension period.

Likewise, we also must acknowledge the possibility that at the end of the six month extension, we may find ourselves at an impasse in these discussions. In that case, we believe it is important for both the States and Amtrak to retain the ability to turn to the Surface Transportation Board for their assistance in settling this matter as called for in Section 209. This is an outcome that Amtrak neither desires nor predicts based on the progress we have been making, but we feel it is an important safeguard for everyone involved in the process.

If you are in agreement, we respectfully request that you sign the attached letter agreement memorializing this understanding. We look forward to the swift conclusion of the PRIIA Section 209 process.

Sincerely,

Stephen J. Gardner
Vice President, Policy and Development

cc: Daniel R. Elliott III, Chairman, Surface Transportation Board

Joseph H. Boardman

October 27, 2010

Frank J. Busalacchi
Chair, States for Passenger Rail Coalition
Secretary
Wisconsin Department of Transportation
PO Box 7910
Madison, Wisconsin 53707-7910

Eugene A. Conti Jr.
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Secretary
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One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Busalacchi and Conti:

In recent months, Amtrak and its current State partners (the States) represented by your entities, the Standing Committee on Rail Transportation, American Association of State Highway and Transportation Officials (AASHTO) and the States for Passenger Rail Coalition (S4PR), have made substantial efforts toward fulfilling the requirements of Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). Nevertheless, for a variety of reasons we have not met Section 209's requirements that we "develop and implement a single, nationwide standardized methodology . . . '[w]ithin 2 years after the data of enactment of this Act," as called for in subsection (a). Based on PRIIA's enactment on October 16, 2008, the deadline of October 16, 2010 has passed.

Subsection (c) of Section 209 states that if we do not meet this deadline, "the Surface Transportation Board [STB] shall determine the appropriate methodology...." and gives the parties the ability to seek resolution of this matter before the Board. Rather than exercise this right at this time, we share a common belief that the States and Amtrak should continue the work currently in progress to collaboratively determine a methodology for Section 209. We propose agreeing to continue this work for a period of six (6) months until April 16, 2011.

Amtrak recognizes that the States represented by your groups are individual entities, but they have assembled a Working Group under your auspices to represent the interests of the States with respect to Section 209 issues. Amtrak's management team, representing the Amtrak Board and the working group will begin discussions this month both on the substantive issues relating to Section 209 and to establish a process and schedule to guide the negotiations.

Prior to April 16, 2011, we agree that Amtrak and the States represented by your two organizations may decide to approach the STB for assistance in Section 209 matters but shall agree to limit this action to instances of mutual decision, assuming the parties continue to work in good faith towards the completion of a new methodology under Section 209. If, at the end of the 6 month period described in this letter, Amtrak and the States agree that there remain significant and material technical obstacles to determining a methodology, they may consider a limited extension of this period.

To indicate your agreement with this proposal described above, please sign this letter and return it to the above address. We look forward to working collaboratively with you and your organizations on this important process.

Sincerely,

Joseph H. Boardman
President and Chief Executive Officer

cc: Daniel R. Elliott III, Chairman, Surface Transportation Board
Section 209 Working Group. David Kutrosky, CCJPA
Patricia Quinn, NNEPRA
Patrick Simmons, NCDOT
Kevin Page, VA-DRPT
Beth Nachreiner, WisDOT

ACCEPTED AND AGREED

Date 11/3/10

By _____

Title Chair SCORT/AASHTO

NATIONAL RAILROAD PASSENGER CORPORATION
[illegible] Massachusetts Avenue NE, Washington, DC 20002
tel 202 906 [illegible] fax 202 906 3306

AMTRAK

Stephen J. Gardner,
Vice President, Policy and Development

March 17, 2011

Paula J. Hammond
Chair, States for Passenger Rail Coalition
Secretary, Washington Department of Transportation
310 Maple Park Avenue SE
P O Box 47300
Olympia, WA 98594-7300

Eugene A. Conti Jr.
Chair, Standing Committee on Rail Transportation
American Association of State Highway and Transportation Officials
Secretary, North Carolina Department of Transportation
Transportation Building
One S. Wilmington Street
Raleigh, NC 27699-1501

Dear Secretaries Hammond and Conti:

I'm writing today to discuss our collaborative efforts to advance Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). First, I'd like to recognize the time and effort that your agencies and fellow States have contributed to the Section 209 process. We have made significant progress and this would not have been possible without this cooperation and, in particular, the substantial contributions of the Section 209 States Working Group (SWG) appointed by your organizations.

The recent pricing proposal from the SWG represents a major shift in how Amtrak and our State and agency partners would share the costs of providing passenger rail service. The Amtrak Board of Directors has reviewed and indicated its general support for this approach, subject to agreement on the additive rates and other details, and we believe it will be a solid foundation for cooperatively growing our operations in the future. While this generally policy concurrence represents a significant step forward, at this time, certain details of this proposal remain outstanding as we continue to cooperatively refine this proposal. We are confident that we can resolve these issues, but we believe that we can do so in a more thorough manner by devoting some additional time to the Section 209 process.

To that end, we propose that we extend the agreement between our organizations, originally executed by Secretaries Busalacchi and Conti on October 15, 2010 and attached, for an additional two months until June 16, 2011. Under this proposed extension, we will continue to work in good faith to finalize these details, and we will continue to agree to only approach the Surface Transportation Board (STB) for assistance in cases of mutual agreement.

To indicate your agreement with this extension, please sign this letter and return it to the above address We look forward to the swift conclusion of this important process, and I would again like to thank all our State and agency partners for their contributions.

Sincerely,

Stephen Gardner
Vice President, Policy & Development

ACCEPTED AND AGREED:

Date:

By:

Title:

Date: 3 9 11

By:

Title:

cc: Thomas Carper, Chair, Amtrak Board of Directors
Joseph H. Boardman, President and CEO, Amtrak

Exhibit S

PRIIA Section 209 Cost Methodology Questionnaire – June 10, 2011

Please complete and submit to patricia@nnepra.com by Friday, June 24, 2011, 5:00pm ET

Name of person completing form: _____

State/ Agency/Title: _____

Route Name(s): _____

1. Do you/does your organization generally *understand* the methodology for determining costs of State Supported Amtrak Services as outlined in the PRIIA Section 209 Policy?
   a. YES b. NO

2. Do you/does your organization have specific *questions or require additional clarification* regarding the methodology for determining costs of State Supported Amtrak Services as presented in the PRIIA Section 209 Policy?
   a. YES b. NO
   If YES, please tell us what your questions are or which elements you would like further explained.
   _____
   _____
   _____
   _____
   _____

3. Do you/does your organization have specific *suggestions or comments to add* regarding the methodology for determining costs of State Supported Amtrak Services as presented in the PRIIA Section 209 Policy?
   a. YES b. NO
   If YES, please tell us what your suggestions are.
   _____
   _____
   _____
   _____
   _____

4. To whom in your state should the PRIAA Section 209 Cost Methodology Policy Packet be transmitted for final approval? Please complete.

Name:	
Title:	
Organization:	
Address:	
Phone #:	
Email:	

5. How many days/weeks do you anticipate it will take to obtain Policy approval from your state?

_____

_____

Exhibit T

PRIIA Section 209
Cost Methodology Policy

August 12, 2011

Final Draft

Prepared for PRIIA 209 States and Other Interested States by
The States Working Group (SWG) and Amtrak:

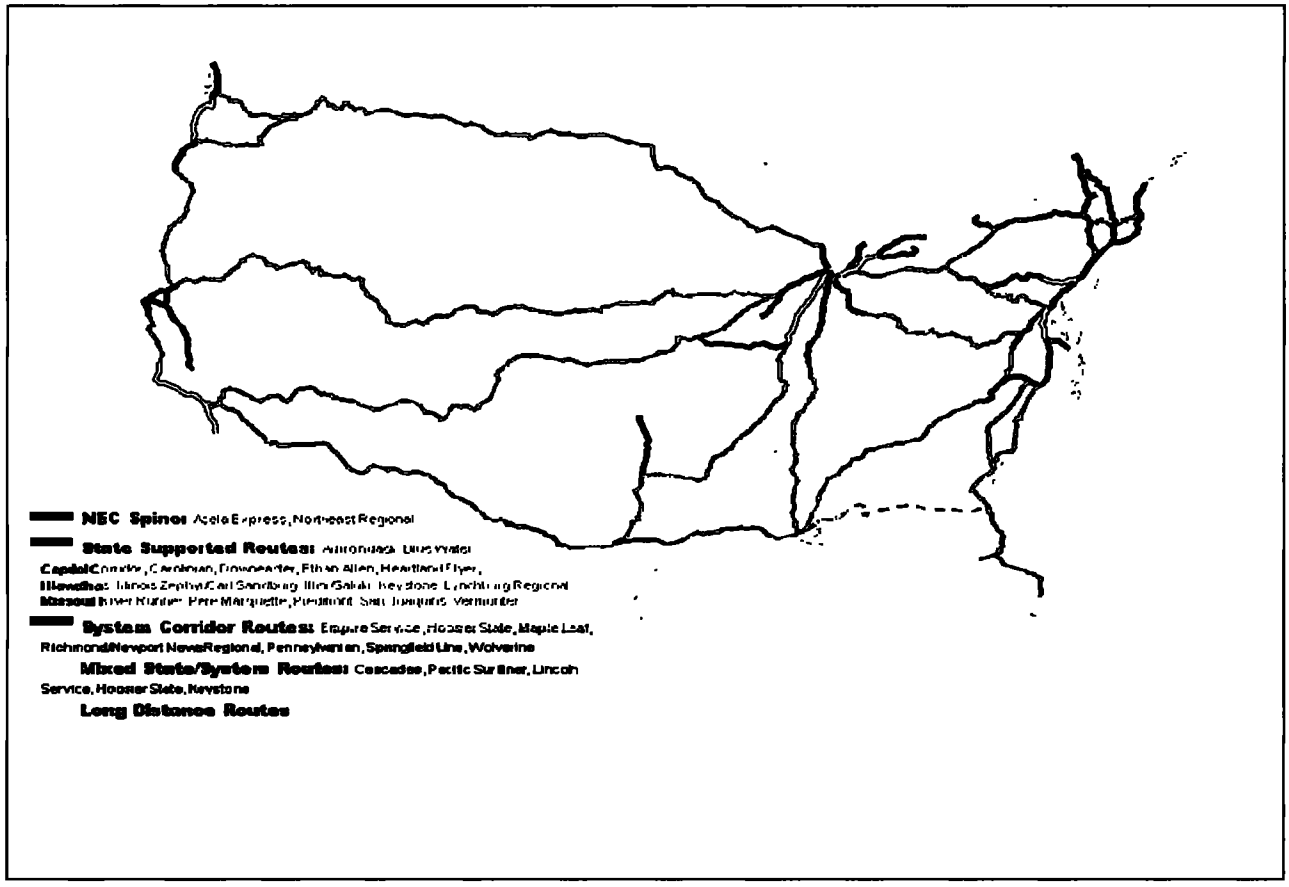
Passenger Rail Investment and Improvement Act (PRIIA) of 2008
Section 209 Cost Methodology Policy

Recommended by the State Working Group (SWG) and Amtrak Staff[1]

FINAL DRAFT 8/12/11

Overview

Under the provisions of PRIIA Section 209, all short-distance Amtrak corridor services must become state-supported routes and states must pay the proportional costs associated with their respective corridor route. This document describes the "single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the States and Amtrak." 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).



[1] Members of SWG-Amtrak group include John Bennett, Stephen Gardner, Shayne Gill, Susan Howard, Max Johnson, David Kutrosky, Beth Nachreiner, Kevin Page, Patricia Quinn, and Patrick Simmons

Appendix A provides a list of affected routes; ***Appendix B*** provides the text of Section 209 and related statutes. Currently, approximately 36 of the total 110 corridor routes are either partially or completely supported by Amtrak. Once Section 209 is implemented, all such corridors routes will be priced in a transparent, fair and equitable manner. Amtrak and states were charged with collaboratively creating a cost methodology to establish a basis for sharing operating costs plus an annual capital charge for Amtrak-owned equipment and facilities used for intercity passenger rail service.

This policy statement outlines the methodology Amtrak will use to compute:

- operating expenses for routes using a formulation that defines direct route costs and associated additives, and
- capital charges for the use of Amtrak-owned assets.

The Amtrak Performance Tracking (APT) system – Amtrak's recently-implemented cost accounting system, that is linked to Amtrak's financial and operating systems -- provides the cost basis that the SWG and Amtrak used to evaluate options for assigning service area route costs.

The Federal Railroad Administration (FRA) met with the SWG and Amtrak to address the issue of transition assistance to the states during the phase in of the new methodologies for route and capital costs. This policy outlines clearly that states are responsible for the costs associated with the new capital charge. However, the FRA recognizes that states will face a financial burden as they implement the new cost-sharing approach. While the details of transition assistance have not been fully developed, the FRA has committed to working with the states and Amtrak on transition assistance.

Basis for Allocating Costs

Many railroad costs—both costs directly related to the services provided and those shared among services—are by their nature provided through jointly used crews, crew bases (locations where train crews report for work), support teams/facilities, maintenance facilities, and stations. As such, cost allocation methods and procedures are needed to fairly apportion these costs. The Amtrak Performance Tracking (APT) system will provide the basis for allocating "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".

In some cases, Amtrak and states may agree 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.

Operating Scenarios

State-supported routes are classified into three operating scenarios:

Single State Corridor Trains. These corridor trains do not cross state lines and do not use the NEC "spine" (Boston-Washington).

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.

Base-Increment NEC Corridor Trains (Single- and Multi-State). In Section 209, the Northeast Corridor (NEC) is defined as "the continuous Northeast Corridor railroad line between Boston, Massachusetts and Washington, District of Columbia" in section 24102(5)(B). Trains having some part of their route both on the NEC and on a state-supported corridor are considered Base-Increment trains. In the case of base-Increment NEC corridor trains, APT allocates costs between the state leg and the NEC leg for accounting purposes in various ways. The allocation explanations for specific expenses are described in the APT documentation available on the FRA website, both in summary in the Main report and in detail in Appendix A.

The following general conditions apply to Base-Increment trains:

- Route Costs (defined below) common to both legs are prorated based on whether costs are incurred on the state leg or on the NEC. For instance, turnaround servicing is allocated by train miles on the NEC and state leg. Non-turnaround maintenance is allocated by both time and mileage-based statistics prorated for the amount of time a train spends on either the NEC or the state leg.
- 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" is revenue from trips with one endpoint on the NEC and one endpoint on the state-supported leg. Through revenue will be credited to the state in one of two ways, to be determined by the state and established in the agreement:
    - Passenger Mile Split. Through revenue will be split between the state and Amtrak proportionate to miles traveled off and on the NEC. Under this method, Amtrak is responsible for all operating and capital costs when the train is on the NEC leg. Capital charges for equipment will be split between the state and Amtrak reflecting service both on and off the NEC, allocated based on the time-based Units Used statistic. Capital charges for fixed assets will be for the state leg only.
    - Through Revenue Plus Passenger Mile Charge. States will continue to be charged costs for the state leg as described above. Through revenue will be credited to the state, along with a charge per passenger mile for the costs of through riders traveling on the NEC. This per passenger mile charge will represent the state's share of Amtrak's:
        - Fully allocated NEC operating costs, as pro rated by all available Amtrak Northeast Regional seat miles;
        - Equipment capital overhaul costs, as pro rated by all available Amtrak Northeast Regional seat miles
        - Fully allocated fixed asset Normalized Replacement capital costs as defined in ***Appendix C***, pro rated by all available Amtrak NEC seat miles; and
        - 20% of any fixed asset State of Good Repair Backlog capital costs as defined in ***Appendix C***, pro rated by all available Amtrak NEC seat miles.

      These charges will be fixed for the term of the contract between the state and Amtrak and applied against actual passenger miles. However, this through revenue policy may be amended by Amtrak and the affected states if the outcome of the PRIIA Section 212 cost allocation process requires changes to this policy.

In addition to the operating scenarios described above, some state-supported routes travel for part or all of the entire route on right-of-way owned by Amtrak outside the NEC; these routes are described in ***Appendix D***. In these situations, Amtrak will remove the maintenance of way expenses for these segments as allocated in APT, and replace them with a synthetic host railroad charge. This charge is consistent with the costs that are typically charged to Amtrak by host railroads for incremental operating and maintenance. For right of way that Amtrak purchases or assumes maintenance responsibility for not listed in ***Appendix D***, Amtrak and the state will negotiate such maintenance and related charges on a case-by-case basis.

Methodology for Determining Operating Costs

Under the proposed S209 Methodology, the Service Fee will include:

- 100 percent of the "Third Party Costs" associated with its corridor service;
- 100 percent of the verifiable Route Costs associated with its corridor service;
- Support Fees proportional to its corridor service; and,
- Credit for passenger and other allocated revenue, resulting in the Net State Cost.

Third Party Costs:

Actual Third Party Costs will be charged to the state corridors. Third Party Costs are comprised of:

- Host railroad maintenance of way;
- Host railroad performance payments; and
- Fuel and power charges.

Route Costs:

Route Costs are operating costs closely associated with the operation of a route. Route Costs can clearly be evaluated and tracked by Amtrak and the states in the direct provision of service on a corridor train. Route operating costs include the following categories as allocated by the APT system:

- Train and engine crew labor
- Car and locomotive maintenance and turnaround service
- On Board Service Labor and provisions (Food Service)
- Route Advertising,
- Sales & Distribution
- Reservations and Call Centers
- Route Stations
- Shared Stations
- Commissions
- Customer Concession
- Connecting Motor Coach
- Local & Regional Police
- Block & Tower operations
- Terminal Maintenance of Way
- Insurance

Support Fees:

Some cost categories have an additional level of regional and national support not included in the Route Costs, and therefore also include Support Fees that are proportional to the service provided. Support Fees are determined by applying category-specific additives to an associated route cost or other aspect of service, (i.e. revenue or passenger miles). These additives were developed by converting support cost data from the APT system into rates that would be consistent across all trains in a region, or in some cases, all state-supported trains.

For example, Amtrak provides mechanical support, facilities and services that can reasonably be apportioned between Amtrak's business lines – the Northeast Corridor (NEC) trains, long-distance trains and state-supported trains. The Maintenance of Equipment (MoE) support fee represents the portion of those costs allocated to state-supported trains and is determined by applying an additive rate to the Car & Locomotive Maintenance and Turnaround route cost.

There are six categories of Support Fees are determined as follows:

- Train & Engine Crew Support (T&E): A combination of system and division additives applied to Train & Engine Crew Labor route costs. All corridors will be charged a system additive which is fixed (*12.9 percent*) and a division additive which is variable (*13.5-24.3 percent*). The division additive is based on the Amtrak region in which the corridor operates and is linked to the management structure within Amtrak that is responsible for service delivery by train crews. The T&E system additive rate excludes costs from Amtrak's Consolidated National Operations Center (CNOC), which are considered a "backbone" cost.
- Maintenance of Equipment (MoE): A fixed system additive (*27 percent*) applied to the Car & Locomotive Maintenance and Turnaround Route Cost. The MoE additive rate excludes backshops and fleet engineering costs, which are considered a "backbone" cost.
- On Board Services (OBS): A fixed system additive (*10 percent*) applied to the OBS Crew & Provisions Route Cost.
- Marketing: A variable regional additive (*1.9 - 2.8 percent*) applied to total revenue. The marketing additive is based on the degree to which a state corridor is connected to the NEC or to a major Amtrak hub station. Corridors that fall into those categories will have a higher additive associated with Amtrak's higher level of shared marketing in those regions.
- Police: A fixed system additive (*$.005*) applied to passenger miles.
- General & Administrative: A fixed system additive (*2 percent*) applied to Total Route Costs.

The additive rate will remain the same for three years beginning October 2012, unless there is a significant unforeseen event, such as a significant decrease in Amtrak's Federal funding or a significant change to the size of Amtrak's network. A change in the additive rate during the three-year term must be approved by Amtrak and the states. At the end of the three year period, Amtrak will propose adjustments to the additive rates if they are necessary. States and Amtrak must mutually agree on additive rate adjustments.

The table below illustrates the S209 Operating Cost Pricing Methodology. The definitions of cost categories and additives are described in more depth in ***Appendix E.***

S209 Operating Cost Pricing Methodology

ROUTE COSTS	+	SUPPORT FEE	=	OPERATING COSTS
Train & Engine Crew Labor		*T&E Route x (Division Additive* + System Additive (12.9%)*	=	Total Train & Engine Crew Labor
Car & Locomotive Maintenance & Turnaround	+	*Car & Loco Route Cost X System Additive (27%)*	=	Total Maintenance of Equipment
On Board Service (OBS) Crew & Provisions	+	*OBS Route Cost x 10% OBS Additive*	=	Total On Board Services
Route Advertising			=	Total Route Advertising
Sales & Distribution	+	*Marketing Additive* x Passenger and Allocated Revenue**	=	Total Sales & Marketing
Reservations & Call Centers			=	Total Res & Call Center
Stations – Route			=	Total Route Stations
Station – Shared			=	Total Shared Stations
Commissions			=	Total Commissions
Customer Concessions			=	Total Concessions
Connecting Motor Coach			=	Total Motor Coach
Regional/Local Police	+	*Passenger Miles x Police Additive ($0.005)*	=	Total Police & Security
Terminal Yard Operations			=	Total Terminal Yard Ops
Terminal Maintenance of Way			=	Total Terminal MoW
Insurance			=	Total Insurance
Total Route Costs *(Sum of Above)*	+	*Total Route Costs x General & Administration Additive (2%)*	=	General & Administrative
				Route Service Fee *(Sum of Above)*
		Host RR Maintenance of Way + Host RR Performance + Fuel & Power	+	3rd Party Costs
			=	**Total Operating Costs** *Service Fee + 3rd Party Costs*
			-	Less Passenger and Other Allocated Revenue
			=	**NET STATE COST**

**Denotes variable additive. Reference Appendix E*

Passenger and Other Allocated Revenue

Passenger revenues include ticket revenue and food and beverage revenue attributable to a particular route. Other Allocated Revenue includes miscellaneous revenue related to a route's passenger train operations, such as ticket by mail fees, loyalty marketing revenue, commissions from sales of third-party services during the reservations process (call/Internet "tipping"), package express where applicable, and other.

Optional Services and Pricing

States may wish to independently contract with alternative service providers for some services rather than Amtrak. For example, states may contract directly with vendors for food service, equipment maintenance, and other 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.

Operating Surplus
In the case where a route achieves an operating surplus, that route's surplus funds will be applied as follows: first, to operating payments for other routes supported by that state; second, to equipment capital charges for that state; third, for agreed upon fixed asset capital charges for that state; fourth, for future operating and capital payments by that state.

Methodology for Determining Capital Costs

Amtrak makes substantial capital investments in equipment (rolling stock) and other fixed assets needed to deliver passenger rail services. Under this policy, Amtrak will charge states for a share of these investments proportional to their use in state-supported services. Based on Section 209 requirements, the capital charge, or capital use charge[2], will be allocated to each route; each sponsoring state is responsible for funding its capital charge. Amtrak will work with states to find federal and other sources of funds to assist with the capital charge.

The capital charge will be forward looking and investment-based. Amtrak will assess an annual capital charge to each state for the following asset types:

- Equipment – existing and new Amtrak-owned;
    - For existing rolling stock, states will be charged a pro rata share, based on Units Used, of capital overhauls performed on the equipment classes they use to assure the assets remain FRA compliant and in a state of good repair
    - For rolling stock procured in the future by Amtrak, states will be charged a pro rata share of the purchase price, financing cost, and capital overhauls reflecting costs paid by Amtrak
    - Capital equipment charges will vary from year to year based on the life cycle maintenance plan associated with the equipment type.
- Other Amtrak fixed assets, including joint stations and Amtrak-owned rights of way;
    - This policy contains no formula-based fixed asset capital charge for Amtrak's other fixed assets such as stations and other facilities. Because of the unique nature of the fixed assets on each route, Amtrak and the states will develop an investment plan to maintain fixed assets in a state of good repair on a case-by-case basis during contract negotiation. States and Amtrak, as necessary, will be responsible for their pro rata share of any capital investments required on these Amtrak owned assets based on usage of these assets by state-supported and other users such as Amtrak long distance and/or commuter.
    - Amtrak will work with states to jointly identify and prioritize route-specific capital projects
- Other investments in assets not owned by Amtrak but required to maintain or enhance service.
    - Some routes make use of assets owned by third parties such as host railroads or state and local governments. States and Amtrak, as necessary, will be responsible for their pro rata share of any capital investments required on these non-Amtrak owned assets based on usage of these assets by state-supported and other users such as Amtrak long distance and/or commuter.

[2] Depending on specific state needs, the charge for capital investment on a state corridor can be characterized as a capital charge, or a capital use charge For purposes of this document, the term "capital charge" encompasses both characterizations

A complete description of capital cost categories is included in ***Appendix E.***

Amtrak will develop a defined five-year investment program in cooperation with each state that describes the capital investments to be made over the period and the payments expected from the states throughout the period to support the five-year capital program. The program will be adjusted as needed in each annual contract update.

The five-year program would include detailed, verifiable program work elements to be accomplished by Amtrak in support of state services annually. In the case of investments/overhauls for equipment used in multiple routes, a sharing relationship will be negotiated at the beginning of each fiscal year based on the route's actual use of equipment as recorded by the APT system and adjusted for any changes in service expected in the upcoming year.

Amtrak will use the best available data to provide the state with an estimate for its capital charge prior to signing an agreement for state supported service. At the end of the contract period, Amtrak will reconcile that estimate to the actual capital investment by that equipment type and a state's use of equipment, as previously determined in each state's annual contract.

In cases where Amtrak spent less on capital programs than planned, Amtrak will apply a credit balance to future years' capital charges. In cases where Amtrak spent more on capital programs than planned, there will be no adjustment to the current year's charge but an adjustment will be made on the subsequent year's charge based on look forward investment strategies.

Amtrak will include the capital charge as a component of each state's Annual Operating Support Agreement. This capital charge will equal each state's pro rata share of the overhaul work described above. States may pay this amount from operating or capital funds, depending on a state's individual financial policies and/or grant sources.

The timing of the billing for capital charges will depend on the timing of the planned capital expenditures. The monthly cash flow for the equipment charge would be determined as part of the development of the Annual Operating Support Agreement.

Attribution of Previous State Capital Investments on the Amtrak Network

Some states have made capital contributions to Amtrak assets in association with their services. For Amtrak-owned equipment, states will be credited for the net present value of past capital investments in Amtrak equipment at the time of Section 209 implementation. This will compensate States for investments they have made in pooled assets used by multiple routes. These past equipment investments by States will allow all routes using that equipment type to schedule future capital replacements at a later date than would have been the case without the prior state investment. Amtrak will work with states to calculate the value of past capital investments in a mutually agreeable way.

For fixed assets, whether owned by Amtrak or other third parties, the capital charge is based on planned investments, not past depreciation, and represents the funding needed to make the agreed-upon investments to sustain existing service levels. As a result, any credit that reduces the capital charge would reduce the funds available for investment, create a funding gap, and prevent the needed investment. Therefore, credit towards future fixed asset capital charges cannot be given within the framework of the Section 209 policy for prior investments made by a state in Amtrak or third party assets. Notwithstanding the inability to fund a fixed asset credit, past State investments in Amtrak or other fixed assets should result in a longer service life for the asset,

and a resulting reduction and/or deferral in the amount of future capital investments, as well as maintaining and/or improving a route's operating performance.

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 estimate projected costs for the contract period and share them with states. 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 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.

State Corridor-Amtrak Contract Template

Amtrak and the SWG developed a contract template for states and Amtrak to use as they work together to develop their contract for services. The contract template addresses the key issues that states and Amtrak must discuss and address in some fashion to develop their agreements for the contract period. The contract template can be customized to reflect state differences. ***Appendix F*** outlines the proposed contract template

Transition from Prior Costing Methodologies

Section 209 of PRIIA requires that the new methodology be fully implemented by October 16, 2013 – that date closely aligns with the beginning of Federal Fiscal Year (FFY) 2014 on October 1, 2013. States may transition to the Section 209 methodology at a mutually agreed upon time prior to October 1, 2013 provided this transition does not result in a reduction in net forecasted state payments to Amtrak compared to that State's prior methodology. Otherwise, all states will transition to the Section 209 methodology effective October 1, 2013.

FRA staff met with the Amtrak and the SWG several times during the course of Section 209 methodology development. The FRA recognizes that the implementation of the new methodology will require increased financial support from states. FRA staff have committed to continuing their work with Amtrak and the states to develop a possible transition assistance plan to ease the impact of Section 209 on the affected states. The states, Amtrak and FRA recognize that any transition plan will need to ultimately be addressed by Congress.

Appendix A: Routes Affected by PRIIA Section 209

	Route Miles[3]	State-Supported FY10[4]	System Trains	State-Supported per PRIIA Sec 209
Single-State[5]				
Empire Service	461	-	Yes	Yes
Lincoln Service (Chi-St Louis)	284	Yes	Partial	Yes
Illini/Saluki	310	Yes	-	Yes
Illinois Zephyr/Carl Sandburg	258	Yes	-	Yes
Pacific Surfliner	350	Yes	Partial	Yes
Capitols	168	Yes	-	Yes
San Joaquins	315	Yes	-	Yes
River Runner (KC-St Louis)	283	Yes	-	Yes
Piedmont	173	Yes	-	Yes
Multi-State (Non-NEC)				
Ethan Allen Express	241	Yes	-	Yes
Maple Leaf	545	-	Yes	Yes
Downeaster	116	Yes	-	Yes
Hiawatha	86	Yes	-	Yes
Wolverines	304	-	Yes	Yes
Heartland Flyer	206	Yes	-	Yes
Cascades	467	Yes	Partial	Yes
Adirondack	381	Yes	-	Yes
Blue Water	319	Yes	-	Yes
Hoosier State	196	-	Yes	Yes
Pere Marquette	176	Yes	-	Yes
NEC Base-increment (Single and Multi-State)[6]				
Vermonter	611	Yes	-	Yes
New Haven – Springfield	63	-	Yes	Yes
Keystone Service	195	Yes	Partial	Yes
Boston/New Haven-Lynchburg	173	Yes	-	Yes
Washington-Richmond	187	Yes	Partial	Yes
Pennsylvanian	353	-	Yes	Yes
Carolinian	479	Yes	-	Yes

[3] For routes with multiple frequencies having different origins and destinations, represents the longest rail trip possible on multiple trains
[4] FY10 State support does not include capital payment, or in some cases, all trains on a route
[5] Routes with 95% or more route miles in one state are considered single state
[6] Excludes route miles on NEC

Appendix B: Relevant Legislation

SEC. 209. STATE-SUPPORTED ROUTES.

(a) IN GENERAL.—Within 2 years after the date of enactment of this Act, the Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, shall 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 routes described in section 24102(5)(B) and (D) and section 24702 that—

(1) ensures, within 5 years after the date of enactment of this Act, equal treatment in the provision of like services of all States and groups of States (including the District of Columbia); and

(2) 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 1 route.

(b) REVISIONS.—The Amtrak Board of Directors, in consultation with the Secretary, the governors of each relevant State, and the Mayor of the District of Columbia, or entities representing those officials, may revise or amend the methodology established under
subsection (a) as necessary, consistent with the intent of this section, including revisions or modifications based on Amtrak's financial accounting system developed pursuant to section 203 of this division.

(c) REVIEW.—If Amtrak and the States (including the District of Columbia) in which Amtrak operates such routes do not voluntarily adopt and implement the methodology developed under subsection (a) in allocating costs and determining compensation for
the provision of service in accordance with the date established therein, the Surface Transportation Board shall determine the appropriate methodology required under subsection (a) for such services in accordance with the procedures and procedural schedule applicable to a proceeding under section 24904(c) of title 49, United States Code, and require the full implementation of this methodology with regards to the provision of such service within 1 year
after the Board's determination of the appropriate methodology.

(d) USE OF CHAPTER 244 FUNDS.—Funds provided to a State under chapter 244 of title 49, United States Code, may be used, as provided in that chapter, to pay capital costs determined in accordance with this section.

49 USC § 24102. Definitions

(5) "national rail passenger transportation system" means -
(A) the segment of the continuous Northeast Corridor railroad line between Boston, Massachusetts, and Washington, District of Columbia;
(B) rail corridors that have been designated by the Secretary of Transportation as high-speed rail corridors (other than corridors described in subparagraph (A)), but only after regularly scheduled intercity service over a corridor has been established;
(C) long-distance routes of more than 750 miles between endpoints operated by Amtrak as of the date of enactment of the PRIIA [October 16, 2008]; and
(D) short-distance corridors, or routes of not more than 750 miles between endpoints, operated by--(i) Amtrak; or (ii) another rail carrier that receives funds under chapter 244.

49 USC §24702. Transportation requested by States, authorities, and other persons provides:
(a) CONTRACTS FOR TRANSPORTATION. Amtrak may enter into a contract with a State, a regional or local authority, or another person for Amtrak to operate an intercity rail service or route not included in the national rail passenger transportation system upon such terms as the parties thereto may agree.

49 USC § 24904. General authority
(c) Compensation for Transportation Over Certain Rights of Way and Facilities. – (1) An agreement under subsection (a)(6) of this section shall provide for reasonable reimbursement of costs but may not cross-subsidize intercity rail passenger, commuter rail passenger, and rail freight transportation.

(2) If the parties do not agree, the Interstate Commerce Commission shall order that the transportation continue over facilities acquired under the Regional Rail Reorganization Act of
1973 (45 U.S.C. 701 et seq.) and the Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 801 et seq.) and shall determine compensation (without allowing cross-subsidization between commuter rail passenger and intercity rail passenger and rail freight transportation) for the transportation not later than 120 days after the dispute is submitted. The Commission shall assign to a rail carrier obtaining transportation under this subsection the costs Amtrak incurs only for the benefit of the carrier, plus a proportionate share of all other costs of providing transportation under this paragraph incurred for the common benefit of Amtrak and the carrier. The proportionate share shall be based on relative measures of volume of car operations, tonnage, or other factors that reasonably reflect the relative use of rail property covered by this subsection.

Appendix C: Definition of NEC Capital Charges, Where Applicable

Normalized Replacement Capital Charge– Replacement of assets on a regular schedule designed to mitigate cyclical imbalances in renewal needs. Normalized replacement is the estimated annual capital investment requirements to maintain infrastructure in a state of good repair once it is in that condition.

State of Good Repair (SOGR) Backlog Capital Charge—An asset or group of assets that have received inadequate maintenance over a long period of time, or have not been replaced within standard life cycle. It may still be functioning as designed but face imminent heavy repair or replacement to overcome a "backlog" of regular maintenance which was not performed on schedule. For the Section 209 policy, SOGR Capital Charge will be calculated as incremental to the Normalized Replacement Capital Charge.

Appendix D: Amtrak-Owned Right of Way Eligible for Synthetic Host Railroad Charge

Amtrak-Owned Track Segment	Miles (Timetable)	Routes Affected
New Haven, CT – Springfield, MA	62	Springfield Shuttle
Philadelphia, PA – Harrisburg, PA	104	Keystones, Pennsylvanian
Porter, IN – Kalamazoo, MI	100	Blue Water, Wolverine
New York Penn Station – Spuyten Duyvil, NY	10.7	Empire Service

Appendix E: Definition of Cost Categories Used in State-Supported Service

version 2011 06 01

Major Cost Category	Cost Category	Definition	Formula
Third Party Costs	Host Railroad Maintenance of Way	Payments to host railroads for incremental costs, primarily maintenance of way associated with passenger operations	FM_307(Host RR) less incentives less Host RR fuel less Host RR MoE
	Host Railroad Performance Incentives	Incentive payments to host railroads for meeting on-time and other performance targets	FM 307(Host RR) Schedule Adherence account
	Fuel and Power	Diesel fuel and electric power used in train operations	FM_304(Fuel + FM_307(Host RR) fuel account +
Route Costs	Train & Engine (T&E) Crew Labor	Salaries, wages benefits, and FELA for employees providing services for train operations Includes engineers, conductors, assistant conductors, and related extra boards	FM_302_1(T&E Crew)
	Car & Locomotive Maintenance and Turnaround	Turnaround service consists of cleaning, inspection, and minor repairs before or after revenue service Also contains scheduled running maintenance and bad order repairs Excludes capitalized maintenance and overhaul	FM_201(MoE Turnaround) + FM 202(MoE Loco Maint) + FM 203(MoE Car Maint) + FM_205(Moe Multiple, direct functions only) _ FM_307(Host RR MoE account only)
	OBS Crew & Provisions	Salaries wages and benefits for employees providing On Board Services in Cafe, Lounge, and Dining Cars, including related extra boards Also includes provisions loaded on train for sale	FM 301_1(OBS Crew) + FM_301_2(OBS Supplies)
	Route Advertising	Sales & marketing expenses in support of a specific route, budgeted and recorded separate from other sales & marketing expense	Specific cost centers in FM_403(Marketing)
	Sales Distribution	Sales and distribution operations, including development of new ticketing and on-board systems	FM 401(Sales (and Distribution) less Commission accounts
	Reservations & Call Centers	Reservation sales call centers for general public and travel agencies, and supporting information systems	FM_402(Information & Reservations)
	Stations - Route	Stations serving a single route Depending on location, may include ticketing baggage and express, stationmaster and ushers, station cleaning and maintenance, training and supervision	FM 501(Stations - Route)
	Stations - Shared	Stations serving multiple routes In addition to route station services, shared stations may include Red Cap and porter services	FM_502(Stations - Shared)
	Commissions	Commission expense from credit cards, travel agencies, airline system access fees and sales by other carriers as applicable	Commission accounts in multiple families for credit card sales travel agents and interline commission expense
	Customer Concession (Psgr Inconv)	Payments to passengers for food & lodging as a result of delays Generally includes unscheduled/ emergency motor coaches	Passenger inconvenience account in FM_G_A(General & Administrative)
	Connecting Motor Coach	Scheduled connecting motor coach services	FM_306(Train Movement) Connecting Motor Coach account
	Regional/Local Police	Local and regional police patrolling duties in support of Amtrak trains, facilities and rights of way	FM_901_2(Police - Regional/Local)
	Block & Tower Operations	Crews who operate staffed towers along specific rights of way	Specific cost centers in FM_306(Train Movement)
	Terminal Yard Operations	Crews who move train equipment at larger terminals before and after revenue service	FM_303_2(Yard - Train & Equipment Moves) + FM 303_4(Yard - Termina Rent/Yard Services)
	Terminal MoW	MoW expense at large Amtrak terminals, as applicable	Specific cost centers in FM_MOW(Maintenance of Way)
	Insurance	Self and purchased insurance for passenger train operations	Allocated insurance expense in FM_G_A(General & Administrative)
Additives	T&E	Division-specific and system overhead rates for T&E supervision and management Includes road foremen, superintendents, crew bases crew dispatching, local and national operating rule compliance and other support Excludes national train dispatching	Division / Division Rate / System Rate / Total Central 13 50% 12 90% 26 40% Mid-Atlantic 18 40% 12 90% 31 30% Mid-Atlantic/Southern 20 20% 12 90% 33 10% New England 16 50% 12 90% 29 40% New York 24 30% 12 90% 37 20% Pacific 19 50% 12 90% 32 40% Southern 20 60% 12 90% 33 50% Southwest 16 30% 12 90% 29 20% Total rate to be applied to T&E Crew Labor
	MoE	Maintenance of shops and equipment to support direct Mechanical activities Excludes Backshops and Fleet Engineering	27 10% of Route Cost Car & Locomotive Maintenance and Turnaround
	OBS	OBS and commissary management and supervision	10 00% of OBS Crew & Provisions
	Police	National police operations and support	$0 0050 per passenger mile
	Marketing	National marketing programs, including national advertising, loyalty marketing, timetables, personnel in support of Route Advertising, shows exhibits & special events and other	Region / Rate Base-increment routes on NEC 2 80% Routes with one terminal in Chicago 2 80% All other routes 1 90% Rate to be applied to Total Revenue
	General & Administrative	Charge for General & Administrative support including Computer Systems, Finance, Legal, and other	2 00% of Route Costs
Revenue Credit	Ticket revenue, net	Ticket revenue from passengers Where applicable includes through revenue adjustments described elsewhere in policy	As reported by APT with adjustments for through revenue described elsewhere in policy
	Food & Beverage Revenue	On-board food & beverage sales Where applicable, pro-rated with supply expense across multiple legs	As reported by APT pro-rated with supply expense across multiple legs
	Other Revenue	Miscellaneous revenue as allocated by APT	As reported by APT

Appendix E: Definition of Cost Categories Used in State-Supported Service - Capital

version 2011-06-01

Major Cost Category	Cost Category	Definition	Formula
Equipment	Passenger service equipment	Capital overhauls for Amtrak-owned equipment in service on state-supported routes, including locomotives, cab cars, coaches, and food service cars. States will be charged for the periodic capital overhauls of equipment in a period based on their proportionate use of that equipment in that period	Capital overhaul expense: by equipment type, from Amtrak's capital accounting systems. Equipment usage statistics: from the Amtrak Performance Tracking system. Amtrak will provide States with an estimate of planned overhaul work at the beginning of a contract period and will reconcile the planned usage to actual work performed and actual equipment used in a State's service
	Other mechanical expense	Wreck repair, facility improvements, equipment engineering and design, general safety & reliability, mechanical IT projects	Not charged to States
Other Amtrak Fixed Assets	Amtrak-owned fixed Assets used in State Services	Includes assets such as Amtrak-owned rights of way, large terminals, stations, and other	To be handled on a case-by-case basis between Amtrak and State partners
Other non-Amtrak Fixed Assets	Non-Amtrak-owned fixed assets used in State services	Includes assets used in State services owned by third parties such as host railroads or state and local governments, such as rights of way, stations, and other	To be handled on a case-by-case basis between Amtrak and State partners

Appendix F: State-Amtrak Contract Template

Contract Outline

Effective Date: Contracts aligned to match each Agency's fiscal year

Parties: State Intercity Passenger Rail (IPR) Agency and Amtrak

Recitals/Boilerplate:

Section 1: Services to be Provided (multiple state funded services can be co-mingled under one agreement):

- Description of Amtrak Services and Service Standards {unique to each State}
- Train Schedule and Route Description {Train Service Schedules (including Connecting Bus Service, if applicable) detailed in appendix}
- Service Standards (see appendices) [Optional and specific to each State IPR Agency]
- Monitor the fiscal performance of the service/quarterly meetings (budget vs. actual)

Section 2: Decisions Affecting Service:

- Include Agency in discussions with railroads or appropriate regional rail authorities regarding schedule changes which impact service.
- Apprise Agency of any bargaining provisions that may impact service

Section 3: Amount of Reimbursement by the State IPR Agency:

- Agency's total financial obligation to Amtrak for the stated contract term shall be defined in terms of the following elements as part of the Section 209 Policy:
  - Service Fee—including Route Costs and Additives (including General & Administrative costs)
  - Third Party Costs—including fuel, host railroad access fees and incentive performance payments.
  - Other Special Cost Items as agreed upon between Amtrak and the Agency
  - Passenger Related Revenue—including ticket revenues, food and beverage revenues and other allocated revenues. These revenues are offsets from the above cost categories
  - Agency payment is the sum of the Service Fee, Third Party Costs, Other Special Costs Items with a credit for Passenger Related Revenue
- Forecasting financial elements always entails some risk as costs and/or revenues may vary from the forecasts. Amtrak and the Agency will determine the procedure for handling variances from forecasts during contract negotiations and, in particular, which party takes the risk for variances for each cost category. Options for managing and assigning variance risk are noted below:
  - Service Fee. Amtrak will make forecasts for the Service Fee. The assignment of variance risk will be subject to negotiation among the parties.
  - Third Party Costs. By definition, these costs are passed through Amtrak directly to the Agency. While Amtrak will make forecasts for these costs, the Agency will reimburse Amtrak for the actual amount of these costs whether they are lower than or higher than the Amtrak estimates

- Other Special Cost Items. These cost items will be negotiated between Amtrak and the Agency with the management of the variance between forecast and actual expenses governed in accordance with the particular arrangement between the parties
- Passenger Related Revenue. Amtrak will make forecasts for these items and the assignment of variance risk will be subject to negotiation among the parties.

Section 4: Manner of Reimbursement:

- Agency will pay Amtrak in accordance with the monthly payment schedule provided service operates at a deficit (see appendices)
- Invoices shall be rendered not less than forty-five (45) days prior to the due date.
- Force majeure
- Monthly Reconciliation Statements to State IPR Agency
- Remedies in the event that Amtrak fails to perform the services as required by this Agreement or Amtrak fails to provide revenue credits or carryover excess contract revenues
- Remedies in the event the State IPR fails to provide payment to Amtrak

Section 5: Defense of Claims {may vary due to scope of work}

Section 6: Inspection and Audit:

- Agency has the right to inspect the rail passenger and bus feeder services, facilities and equipment provided for service subject to adequate notice
- Amtrak shall provide the number of passengers carried and passenger miles operated for each train as well as other service-related reports as agreed-to by Amtrak and the Agency. Such data shall be computed and furnished on a monthly basis as described in the appendices (varies by State).

Section 7: Dispute Resolution {May vary}

Section 8: Force Majeure

- The obligations of Amtrak hereunder shall be subject to force majeure.

Section 9: Termination

Section 10: Notices

Section 11: Agreement Content

Section 12: Construction {May vary by State}

Section 13: Severability

Section 14: Compliance with Collective Bargaining Agreements

- The State acknowledges the existence of collective bargaining agreements between Amtrak and certain labor organizations representing certain of Amtrak's employees, and agrees that Amtrak will provide the

Service in a manner consistent with its obligations and rights under such agreements, as they may exist from time to time.

Section 15: State-Required Provisions (unique to each State):

- Appropriation of Funds
- Non-Discrimination
- Fair Employment Practices
- Contractor Integrity

Signature Blocks

Appendices: (contents and number of appendices will vary by State):

- National Section 209 Policy
- Train Service Schedules (and Connecting Bus Service, if applicable)
- Budget
- Payment Schedule
- Examples of Services and Performance Standards {OPTIONAL}
  - Provision of Equipment—Availability and Condition
  - Equipment Maintenance Standards
  - Reliability of Service—On Time Performance
  - Maintenance of Stations
  - Crew Performance, Supervision and Standards
  - Food Service
  - Reservations/Call Center
  - Marketing Support
  - Other Services

Exhibit U

PRIIA Section 209

States Working Group/Amtrak Update

Standing Committee on Rail Transportation

September 12, 2011

Declaration of Maximilian R. Johnson - Exhibit U

Overview & Outreach

- **October 2010:**
  - First of several SWG/Amtrak meetings
- **November 2010:**
  - State survey
- **December 2010:**
  - SWG/Amtrak meeting
- **January 2011:**
  - State Meetings /Calls
- **February 2011:**
  - SWG proposes new methodology to Amtrak
  - Amtrak Board generally concurs with new SWG proposed methodology.
- **March 2011:**
  - FRA Update
  - AASHTO Leadership Briefing
  - State Briefings
- **June 2011:**
  - NEC Corridor Commission Briefing
  - Draft Policy sent to states for comment
- **August 2011:**
  - Final Draft Policy sent to states for comment
  - MidWest/other briefings
  - Amtrak Board approves Policy
- **September :**
  - Policy sent to Governors requesting September 30, 2011 concurrence.

Declaration of Maximilian R. Johnson - Exhibit U

Basics of the 209 Cost Proposal

- **States Pay 100% of Route Costs**
- **Shared Costs replaced with Support Fees (overhead) based on selected Route Costs and directly proportionate to services provided to States by Amtrak.**
- **Capital Charges will support maintenance of Amtrak owned capital assets used by states.**
  - Primarily includes Amtrak owned equipment & stations
  - Forward looking
  - Amtrak will develop capital plan in cooperation with States
  - Replaces original depreciation model

Declaration of Maximilian R. Johnson - Exhibit U

State Operating Cost Outline

S209 Operating Cost Pricing Methodology

ROUTE COSTS	+	SUPPORT FEE	=	OPERATING COSTS
Train & Engine Crew Labor		*T&E Route x (Division Additive* + System Additive (12.9%)*	=	Total Train & Engine Crew Labor
Car & Locomotive Maintenance & Turnaround	+	*Car & Loco Route Cost X System Additive (27%)*	=	Total Maintenance of Equipment
On Board Service (OBS) Crew & Provisions	+	*OBS Route Cost x 10% OBS Additive*	=	Total On Board Services
Route Advertising			=	Total Route Advertising
Sales & Distribution	+	*Marketing Additive* x Passenger and Allocated Revenue**	=	Total Sales & Marketing
Reservations & Call Centers			=	Total Res & Call Center
Stations – Route			=	Total Route Stations
Station – Shared			=	Total Shared Stations
Commissions			=	Total Commissions
Customer Concessions			=	Total Concessions
Connecting Motor Coach			=	Total Motor Coach
Regional/Local Police	+	*Passenger Miles x Police Additive ($0.005)*	=	Total Police & Security
Terminal Yard Operations			=	Total Terminal Yard Ops
Terminal Maintenance of Way			=	Total Terminal MoW
Insurance			=	Total Insurance
Total Route Costs *(Sum of Above)*	+	*Total Route Costs x General & Administration Additive (7%)*	=	General & Administrative
				Route Service Fee *(Sum of Above)*
		Host RR Maintenance of Way + Host RR Performance + Fuel & Power	+	3rd Party Costs
			=	**Total Operating Costs** *Service Fee + 3rd Party Costs*
			-	Less Passenger and Other Allocated Revenue
			=	**NET STATE COST**

**Denotes variable additive Reference Appendix D*

Declaration of Maximilian R. Johnson - Exhibit U

Contract Cost Implications

Operating Costs	Fully Allocated	Board A	Board B	209
Fully Allocated Costs	$ 774,172,000	$ 774,172,000	$ 774,172,000	$ 774,172,000
Costs Allocated to States	$ 774,172,000	$ 696,754,800	$ 704,496,520	$ 660,368,716
Farebox Revenue	$ 382,163,300	$ 382,163,300	$ 382,163,300	$ 388,302,000
Net State Payments	$ 392,008,700	$ 314,591,500	$ 322,333,220	$ 272,066,716
% of Fully Allocated	*100%*	*90%*	*91%*	*85%*

Capital Costs	209
Depreciation Proposal	$ 110,000,000
Current Proposal	$ 59,000,000

Declaration of Maximilian R. Johnson - Exhibit U

We're Here to Help

- **SWG & Amtrak 209 Team are willing to provide help and assistance going forward.**
- **There are many opportunities to further reduce/control costs & to increase revenues.**
- **It's time to focus on building and growing our services.**

Declaration of Maximilian R. Johnson - Exhibit U

The Time to Concur is Now

- **Policy concurrence does not mean acceptance of budget numbers.**
- **Policy does not take effect until October 1, 2013.**
- **Concurrence now can help deter other competing proposals which could have a less favorable impact on States.**
- **FRA Grants require ongoing support of services**
- **Letter from the Chairs of SCORT & SPRC support the policy and recommend concurrence in the best interest of the States and the industry.**

Declaration of Maximilian R. Johnson - Exhibit U

Who's On Board?

Declaration of Maximilian R. Johnson - Exhibit U

Exhibit V

September 1, 2011

The Honorable Edmund Gerald Brown, Jr.
Governor of California
State Capitol
Sacramento, CA 95814

Dear Governor Brown:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Capitol Corridor*, *Pacific Surfliner*, and the *San Joaquins* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Cindy McKim, Director, California Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staffs were provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: William D. Bronte, Chief, Division of Rail, California Department of Transportation
Bob Franklin, Chair, CCJPA
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Dan Malloy
Governor of Connecticut
210 Capitol Avenue
Hartford, CT 06106

Dear Governor Malloy:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the New Haven-Springfield line Amtrak corridor route, as we identified in our February 4, 2011 letter to Jeffrey Parker, Interim Commissioner, Connecticut Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: James P. Redeker, Acting Commissioner, Connecticut Department of Transportation
Eugene Colonese, Public Transit Administrator, Connecticut Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Pat Quinn
Governor of Illinois
State Capitol
207 Statehouse
Springfield, IL 62706

Dear Governor Quinn:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Lincoln Service*, *Illini/Saluki*, and the *Illinois Zephyr/Carl Sandburg* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Gary Hannig, Secretary, Illinois Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Ann L. Schneider, Acting Secretary, Illinois Department of Transportation
Joseph Shaeter, Director, Division of Public and Intermodal Transportation
George Weber, Deputy Chief, Bureau of Railroads, Illinois Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Mitch Daniels
Governor of Indiana
State House
Room 206
Indianapolis, IN 46204-2797

Dear Governor Daniels:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Hoosier State*, and portions of the *Blue Water*, *Pere Marquette*, and the *Wolverines* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Michael B. Cline, Commissioner, Indiana Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Michael B. Cline, Commissioner, Indiana Department of Transportation
Keith Bucklew, Director, Multi-Modal Planning and Programs, Indiana DOT
Joseph H. Boardman, President and CLO, Amtrak

September 1, 2011

The Honorable Paul LePage
Governor of Maine
#1 State House Station
Augusta, ME 04333

Dear Governor LePage:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Downeaster* Amtrak corridor route, as we identified in our February 4, 2011 letter to Martin Eisenstein, Chairman of the NNEPRA Board, and David Bernhardt, Comissioner, Maine Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: David Bernhardt, Commissioner, Maine Department of Transportation
Martin Eisenstein, Chairman, NNEPRA
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Deval Patrick
Governor of Massachusetts
State House
Office of the Governor, Room 360
Boston, MA 02133

Dear Governor Patrick:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Downeaster*, New Haven-Springfield line, and the *Vermonter* Amtrak corridor routes.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Richard Davey, Secretary, Massachusetts Department of Transportation
Tim Doherty, Director of Rail Programs, Massachusetts Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Rick Snyder
Governor of Michigan
P.O. Box 30013
Lansing, MI 48909

Dear Governor Snyder:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Blue Water*, *Pere Marquette*, and the *Wolverines* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Kirk T. Steudle, Director, Michigan Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Kirk T. Steudle, Director, Michigan Department of Transportation
Tim Hoeffner, Administrator, Office of High Speed Rail, Michigan Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak



September 1, 2011

The Honorable Jeremiah W. Nixon
Governor of Missouri
Capitol Building
Room 218, P.O. Box 720
Jefferson City, MO 65102

Dear Governor Nixon:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Missouri River Runner* Amtrak corridor route, as we identified in our February 4, 2011 letter to Kevin Keith, Director, Missouri Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Kevin Keith, Director, Missouri Department of Transportation
Michelle Teel, Multimodal Operations Director, Missouri Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable John Lynch
Governor of New Hampshire
Office of the Governor
25 Capitol Street, Room 212
Concord, NH 03301

Dear Governor Lynch:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Downeaster* and the *Vermonter* Amtrak corridor routes, as we identified in our February 4, 2011 letter to George N. Campbell, Commissioner, New Hampshire Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in final draft form on August 12, 2011.

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Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

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Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: George N. Campbell, Commissioner, New Hampshire Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak



September 1, 2011

The Honorable Andrew Cuomo
Governor of New York
State Capitol
Albany, NY 12224

Dear Governor Cuomo:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Adirondack*, *Empire Service*, and the *Maple Leaf* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Stanley Gee, Acting Commissioner, New York Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Joan McDonald, Commissioner, New York State Department of Transportation
John Rondinaro, Director, Office of Integrated Modal Services, New York State DOT
Joseph H. Boardman, President and CEO, Amtrak



September 1, 2011

The Honorable Bev Perdue
Governor of North Carolina
Office of the Governor
20301 Mail Service Center
Raleigh, NC 27699-0301

Dear Governor Perdue:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Carolinian* and the *Piedmont* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Gene Conti, Secretary, North Carolina Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Eugene A. Conti, Secretary, North Carolina Department of Transportation
Pat Simmons, Rail Division Director, North Carolina Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

AMTRAK

September 1, 2011

The Honorable Mary Fallin
Governor of Oklahoma
Capitol Building
2300 Lincoln Blvd., Rm. 212
Oklahoma City, OK 73105

Dear Governor Fallin:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Heartland Flyer* Amtrak corridor route, as we identified in our February 4, 2011 letter to Gary Ridley, Director and Secretary, Oklahoma Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Gary Ridley, Secretary, Oklahoma Department of Transportation
Joe Kyle, Manager of Rail Programs Division, Oklahoma Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable John A. Kitzhaber, M.D.
Governor of Oregon
State Capitol, Room 160
900 Court St. N.
Salem, OR 97301

Dear Governor Kitzhaber:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Cascades* Amtrak corridor route, as we identified in our February 4, 2011 letter to Matthew Garrett, Director, Oregon Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Matthew Garrett, Director, Oregon Department of Transportation
Lana Cully, Interim Administrator, Oregon Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Tom Corbett
Governor of Pennsylvania
Room 225
Main Capitol Building
Harrisburg, PA 17120

Dear Governor Corbett:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Keystones* and the *Pennsylvanian* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Barry Schoch, Secretary, Pennsylvania Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

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Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Barry Schoch, Secretary, Pennsylvania Department of Transportation
Toby Fauver, Deputy Secretary for Local and Area Transportation, Pennsylvania DOT
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

John A. Barton. Interim Executive Director
Texas Department of Transportation
125 E. 11th Street
Austin. TX 78701

Dear Mr. Barton:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Heartland Flyer* Amtrak corridor route, as we identified in our February 4, 2011 letter to Amadeo Saenz, Executive Director, Texas Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Interim Executive Director

cc: William Glavin, Director, Rail Division, Texas Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Peter Shumlin
Governor of Vermont
109 State Street
Pavilion Office Building
Montpelier, VT 05609

Dear Governor Shumlin:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Ethan Allen Express* and the *Vermonter* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Brian Searles, Secretary of Transportation, Vermont Agency of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

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Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Brian Searles, Secretary, Vermont Agency of Transportation
Joe Flynn, Rail Director, Vermont Agency of Transportation
Joseph H. Boardman, President and CEO, Amtrak



September 1, 2011

The Honorable Robert McDonnell
Governor of Virginia
State Capitol
Third Floor
Richmond, VA 23219

Dear Governor McDonnell:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the Newport News Service and Lynchburg Service Amtrak corridor routes, as we identified in our February 4, 2011 letter to Thelma Drake, Director, Virginia Department of Rail and Public Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Thelma Drake, Director, Virginia Department of Rail and Public Transportation
Kevin Page, Chief of Rail Transportation, Virginia Department of Rail and Public Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Chris Gregoire
Governor of Washington
Office of the Governor
P.O. Box 40002
Olympia, WA 98504-0002

Dear Governor Gregoire:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Cascades* Amtrak corridor route, as we identified in our February 4, 2011 letter to Paula J. Hammond, Secretary, Washington State Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

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Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Paula Hammond, Secretary, Washington State Department of Transportation
John Sibold, State Rail and Marine Acting Director, Washington State DOT
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

The Honorable Scott Walker
Governor of Wisconsin
115 East State Capitol
Madison
Madison, WI 53707

Dear Governor Walker:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Hiawathas* Amtrak corridor route, as we identified in our February 4, 2011 letter to Mark Gottlieb, Secretary, Wisconsin Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

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Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: _____

By: _____

Title: _____
Governor or Governor's Designee

cc: Mark Gottlieb, Secretary, Wisconsin Department of Transportation
Ron Adams, Bureau of Transit, Local Roads, Railroads and Harbors, Wisconsin DOT
Joseph H. Boardman, President and CEO, Amtrak

Exhibit W

NATIONAL RAILROAD PASSENGER CORPORATION

September 1, 2011

The Honorable Paul LePage
Governor of Maine
#1 State House Station
Augusta, ME 04333

Dear Governor LePage:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Downeaster* Amtrak corridor route, as we identified in our February 4, 2011 letter to Martin Eisenstein, Chairman of the NNEPRA Board, and David Bernhardt, Comissioner, Maine Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

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Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 9-13-11

By: _____

Title: Commissioner
Governor or Governor's Designee

cc: David Bernhardt, Commissioner, Maine Department of Transportation
Martin Eisenstein, Chairman, NNEPRA
Joseph H. Boardman, President and CEO, Amtrak

Wisconsin Department of Transportation

www.dot.wisconsin.gov

Scott Walker
Governor

Mark Gottlieb, P.E.
Secretary

Office of the Secretary
4802 Sheboygan Avenue, Room 120B
P.O. Box 7910
Madison, WI 53707-7910

Telephone 608-266-1113
FAX. 608-266-9912
E-mail: sec.exec@dot.wi.gov

September 14, 2011

Thomas C. Carper
Chairman
Amtrak Board of Directors
60 Massachusetts Avenue, NE
Washington, DC 20002

Dear Mr. Carper:

Attached you will find Wisconsin's concurrence with the Section 209 policy outlined and attached to your September 1, 2011 letter.

Sincerely,

Mark Gottlieb, P.E.
Secretary

cc: Governor Scott Walker
Joe Boardman, President and CEO, Amtrak

NATIONAL RAILROAD PASSENGER CORPORATION

AMTRAK

September 1, 2011

The Honorable Scott Walker
Governor of Wisconsin
115 East State Capitol
Madison
Madison, WI 53707

Dear Governor Walker:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Hiawathas* Amtrak corridor route, as we identified in our February 4, 2011 letter to Mark Gottlieb, Secretary, Wisconsin Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

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We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 9.14.2011

By: Mk Gottlieb

Title: Secretary Wisconsin DOT
Governor or Governor's Designee

cc: Mark Gottlieb, Secretary, Wisconsin Department of Transportation
Ron Adams, Bureau of Transit, Local Roads, Railroads and Harbors, Wisconsin DOT
Joseph H. Boardman, President and CEO, Amtrak

AMTRAK

September 1, 2011

The Honorable Bev Perdue
Governor of North Carolina
Office of the Governor
20301 Mail Service Center
Raleigh, NC 27699-0301

Dear Governor Perdue:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Carolinian* and the *Piedmont* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Gene Conti, Secretary, North Carolina Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 9/19/2011

By: Eugene A. Conti

Title: Secretary of DOT

Governor or Governor's Designee

cc: Eugene A. Conti, Secretary, North Carolina Department of Transportation
Pat Simmons, Rail Division Director, North Carolina Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

September 1, 2011

John A. Barton, Interim Executive Director
Texas Department of Transportation
125 E. 11th Street
Austin, TX 78701

Dear Mr. Barton:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Heartland Flyer* Amtrak corridor route, as we identified in our February 4, 2011 letter to Amadeo Saenz, Executive Director, Texas Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCOR1) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 26 SEPTEMBER 2011

By: John A. Barton, P.E.

Title: JOHN A BARTON, P.E.
Interim Executive Director

cc: William Glavin, Director, Rail Division, Texas Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

RECEIVED
SEP 03 2011
ODOT
HEADQUARTERS

September 1, 2011

The Honorable John A. Kitzhaber, M.D.
Governor of Oregon
State Capitol, Room 160
900 Court St. N.
Salem, OR 97301

Dear Governor Kitzhaber:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Cascades* Amtrak corridor route, as we identified in our February 4, 2011 letter to Matthew Garrett, Director, Oregon Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 9-26-11

By: _____

Title: Governor's Designee
Governor or Governor's Designee

cc: Matthew Garrett, Director, Oregon Department of Transportation
Lana Cully, Interim Administrator, Oregon Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

STATE OF NEW YORK
DEPARTMENT OF TRANSPORTATION
ALBANY, N.Y. 12232
www.nysdot.gov

JOAN McDONALD
COMMISSIONER

ANDREW M CUOMO
GOVERNOR

September 29, 2011

Thomas C. Carper
Chairman, Amtrak Board of Directors
National Railroad Passenger Corporation
60 Massachusetts Avenue, NE
Washington, DC 20002

Dear Chairman Carper:

Thank you for your recent letter transmitting the proposed cost sharing methodology policy to comply with Section 209 of PRIIA. The New York State Department of Transportation (NYSDOT) recognizes both the importance and significance of this cost sharing methodology and must also balance its impact in a way that effectively meets the needs of the state.

New York appreciates and has contributed towards the diligent efforts of the Section 209 State Working Group and Amtrak in developing the methodology over the past year. We believe the resulting methodology allocates operating costs and revenues to the states in a fair and equitable manner, consistent with the statutory mandate. However, we also recognize that a national policy can not possibly encompass all the unique issues and circumstances which exist in the relationships between Amtrak and the individual states.

For example, there are outstanding contractual obligations between Amtrak and New York for the operation and maintenance of state-funded capital investments that differ from the terms of the Section 209 policy. We believe that the terms of these contracts will continue to govern until they expire, at which point the Section 209 policies would supplant the contractual terms.

We are also concerned that at this point in time, we cannot demonstrate to our leaders and the public that the state will get something new in intercity passenger rail service for the significant increase in state funding that will result from the implementation of this policy. At a minimum, the State would require a decision-making role in all aspects of Empire Corridor and Adirondack Corridor services, including service levels and schedules, fares, operating costs and capital investments.

Consequently, NYSDOT recognizes the Section 209 policy as a cost and revenue allocation policy consistent with federal law. We recognize this policy as a baseline for

Consequently, NYSDOT recognizes the Section 209 policy as a cost and revenue allocation policy consistent with federal law. We recognize this policy as a baseline for negotiations, but not binding upon any contracts between New York and Amtrak for Section 209 services. Negotiations for these contracts, as well as the other new ones related to an increased role in decision-making for New York State, need to be the mechanisms for addressing all the requisite issues to our mutual satisfaction.

The Section 209 implementation effort further underscores the need to continue strengthening the partnership between our two agencies. New York appreciates and values our relationship with Amtrak while we face the challenges of advancing passenger rail service across New York State.

Sincerely,

Joan McDonald, Commissioner
New York State Department of Transportation

cc: Joseph H. Boardman, President and CEO, Amtrak
Stephen J. Gardner, Vice President, Policy & Planning, Amtrak
Robert Zerrillo, Director, Policy & Planning Division, NYSDOT

NATIONAL RAILROAD PASSENGER CORPORATION

AMTRAK

September 1, 2011

The Honorable Robert McDonnell
Governor of Virginia
State Capitol
Third Floor
Richmond, VA 23219

Dear Governor McDonnell:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the Newport News Service and Lynchburg Service Amtrak corridor routes, as we identified in our February 4, 2011 letter to Thelma Drake, Director, Virginia Department of Rail and Public Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 9-29-11

By: Robert McDonnell

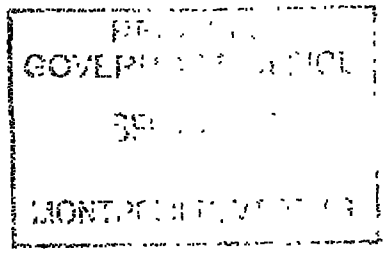
Title: Governor

Governor or Governor's Designee

cc: Thelma Drake, Director, Virginia Department of Rail and Public Transportation
Kevin Page, Chief of Rail Transportation, Virginia Department of Rail and Public Transportation
Joseph H. Boardman, President and CEO, Amtrak

NATIONAL RAILROAD PASSENGER CORPORATION





September 1, 2011

The Honorable Peter Shumlin
Governor of Vermont
109 State Street
Pavilion Office Building
Montpelier, VT 05609

Dear Governor Shumlin:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Ethan Allen Express* and the *Vermonter* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Brian Searles, Secretary of Transportation, Vermont Agency of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 10-3-2011

By: _____

Title: Governor, State of Vermont
Governor or Governor's Designee

cc: Brian Searles, Secretary, Vermont Agency of Transportation
Joe Flynn, Rail Director, Vermont Agency of Transportation
Joseph H. Boardman, President and CEO, Amtrak

RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

October 7, 2011

Mr. Thomas C. Carper, Chairman
Amtrak Board of Directors
National Railroad Passenger Corporation
60 Massachusetts Avenue, NE
Washington, D.C. 20002

Dear Chairman Carper:

Governor Snyder asked me to respond, as his designee, to your letter of September 1, 2011, regarding Michigan's position on proposed cost sharing methodology and accompanying policy required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).

The State of Michigan generally concurs with the cost sharing methodology and the accompanying policy which was developed by the National Railroad Passenger Corporation (Amtrak) and the Section 2009 State Working Group (SWG) as required under Section 209 of PRIIA with the following concerns:

1) Services on the *Pere Marquette, Blue Water, and Wolverine* are all multistate corridors as defined by Amtrak. Michigan is not aware of the level of information Amtrak has shared with the other states on these corridors and how the cost sharing methodology will be implemented under these circumstances.
2) The requirement for implementation of a cost sharing methodology for all intercity passenger routes less than 750 miles under Section 209 of PRIIA, places Michigan in a very unique situation. Since all intercity passenger services in Michigan are on routes less than 750 miles long, it would leave our state without any Amtrak basic system service. This forces Michigan to bear the cost of all intercity passenger service in our state unlike most other states. Michigan would like to work with Amtrak to remedy this.
3) The 304 mile federally designated Chicago Hub (Chicago-Detroit/Pontiac) High Speed Rail Corridor is very unique, in that, it includes nearly 100 miles of Amtrak ownership (Kalamazoo, Michigan to Porter, Indiana). In addition, Michigan is near completion on our negotiations with Norfolk Southern Railway to acquire an additional 136 miles of the corridor between Kalamazoo and Dearborn, Michigan. This would place nearly 80 percent of this corridor in passenger friendly ownership, providing opportunities for some very innovative service options in the future.

MURRAY D VAN WAGONER BUILDING • P O BOX 30050 • LANSING, MICHIGAN 48909
www michigan gov • (517) 373-2090

Michigan has appreciated the opportunity to participate in Amtrak's collaborative approach in development of the cost sharing methodology and policy through the SWG. However, there is still much work to be done to ensure that the implementation of this methodology and policy is successful for Michigan. The Michigan Department of Transportation is committed to find "better, faster, cheaper, safer, smarter" means of doing business, and we invite Amtrak to work with us to continue these efforts and further define these policies to best serve Michigan's citizens. If you have any questions, please contact either me or Tim Hoeffner, Administrator, Office of Rail, at 517-373-6672.

Sincerely,

Kirk T. Steudle
Director

September 1, 2011

The Honorable Edmund Gerald Brown, Jr.
Governor of California
State Capitol
Sacramento, CA 95814

Dear Governor Brown:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B) Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 services include the *Capitol Corridor*, *Pacific Surfliner*, and the *San Joaquins* Amtrak corridor routes, as we identified in our February 4, 2011 letter to Cindy McKim, Director, California Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staffs were provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: October 10, 2011

By: _____
Malcolm Dougherty

Title: Acting Caltrans Director
Governor/Governor's Designee

cc: William D. Bronte, Chief, Division of Rail, California Department of Transportation
Bob Franklin, Chair, CCJPA
Joseph H. Boardman, President and CEO, Amtrak

AMTRAK

September 1, 2011

The Honorable Mary Fallin
Governor of Oklahoma
Capitol Building
2300 Lincoln Blvd., Rm. 212
Oklahoma City, OK 73105

Dear Governor Fallin:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Heartland Flyer* Amtrak corridor route, as we identified in our February 4, 2011 letter to Gary Ridley, Director and Secretary, Oklahoma Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

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Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 10-21-11

By: _____

Title: _____
Governor or Governor's Designee

cc: Gary Ridley, Secretary, Oklahoma Department of Transportation
Joe Kyle, Manager of Rail Programs Division, Oklahoma Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

New Hampshire DOT
Department of Transportation

THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION

CHRISTOPHER D. CLEMENT, SR.
COMMISSIONER

JEFF BRILLHART, P.E.
ASSISTANT COMMISSIONER

October 26, 2011

Joseph H. Boardman, President and CEO
National Railroad Passenger Corporation
60 Massachusetts Ave. NE
Washington DC 20002

Dear Mr. Boardman:

I am writing in response to the September 1, 2011 letter to Governor John Lynch regarding the proposed cost sharing methodology and policy pursuant to Section 209 of the PRIIA. I am sorry that we were unable to respond prior to the September 30 date specified in the letter from Chairman Carper.

New Hampshire enjoys significant benefits from two state-supported services, the Downeaster and the Vermonter, sponsored by the states of Maine and Vermont respectively. Our state does not have a contractual relationship with Amtrak or the sponsoring states for either service. It is not clear whether we will become a sponsoring state in the future; such a decision would require the approval of the Legislature, Governor, and Executive Council. The same approvals would be required to agree to any cost-sharing agreement with the states of Maine and Vermont for the existing services. Consequently, we do not have a direct interest at this time in the methodologies spelled out in the policy. Having reviewed the policy, we find it a reasonable approach to the sharing or operating and capital costs and one that New Hampshire would be comfortable with, should we become a state that sponsors a state-supported service.

We look forward to continuing discussions with Amtrak on the existing services in our region and on potential new and expanded passenger rail service to New Hampshire. If New Hampshire were to become a sponsoring state, we would expect to have a voice in establishing fares, schedules and other service details as part of a formal relationship with Amtrak and with partner states.

Sincerely,

Christopher D Clement, Sr.
Commissioner

cc: Governor John Lynch

JOHN O. MORTON BUILDING • 7 HAZEN DRIVE • P.O. BOX 483 • CONCORD, NEW HAMPSHIRE 03302-0483
TELEPHONE. 603-271-3734 • FAX· 603-271-3914 • TDD· RELAY NH 1-800-735-2964 • INTERNET. WWW.NHDOT.COM

STATE OF CONNECTICUT

DEPARTMENT OF TRANSPORTATION

2800 BERLIN TURNPIKE, P.O. BOX 317546
NEWINGTON, CONNECTICUT 06131-7546

Office of the
Commissioner

An Equal Opportunity Employer

November 3, 2011

Mr. Thomas C. Carper
Chairman, Amtrak Board of Directors
National Railroad Passenger Corporation
60 Massachusetts Avenue, NE
Washington, DC 20002

Dear Mr. Carper:

I am pleased to provide my formal concurrence with the proposed cost sharing methodology for Section 209. Connecticut recognizes both the importance and significance of this cost methodology and, as such, strives to ensure that it effectively meets the needs of Amtrak and our state.

Connecticut appreciates the efforts by Amtrak to address key issues for our partnership in this state and in the region. The meeting which was held on October 14, 2011 with key Amtrak staff resulted in a formal understanding of Amtrak's commitment to address several key issues of concern to Connecticut in parallel with the implementation of the Section 209 methodology, and a commitment to implement interim payment terms consistent with Section 209 if Section 212 is not completed. Based on the November 2 letter from Stephen Gardner (enclosed) outlining the outstanding issues that will be addressed, I am able to concur with the proposed Section 209 methodology.

Connecticut appreciates and values our relationship with Amtrak while we face the challenges of advancing passenger rail service in New England.

Sincerely,

James Redeker
Commissioner

Enclosure

cc: Stephen Gardner

AMTRAK

September 1, 2011

The Honorable Dan Malloy
Governor of Connecticut
210 Capitol Avenue
Hartford, CT 06106

Dear Governor Malloy:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the New Haven-Springfield line Amtrak corridor route, as we identified in our February 4, 2011 letter to Jeffrey Parker, Interim Commissioner, Connecticut Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011.

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 11/3/11

By: _____

Title: Commissioner of Transportation
Governor or Governor's Designee

cc: James P. Redeker, Acting Commissioner, Connecticut Department of Transportation
Eugene Colonese, Public Transit Administrator, Connecticut Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington DC 20002
tel 215 349 1467 fax 215 349 4826

Stephen Gardner
Vice President NEC Infrastructure & Development



November 2, 2011

Mr. Richard A. Davey
Secretary and CEO
Massachusetts Department of Transportation
10 Park Plaza Room 4160
Boston, MA 02116

Mr. James Redeker
Commissioner
Connecticut Department of Transportation
2800 Berlin Turnpike, P.O. Box 317546
Newington, Connecticut 06131-7546

Dear Messrs. Davey and Redeker:

We would like to thank you and your respective staff for making the time on October 14, 2011 to discuss the Section 209 Final Policy developed by Amtrak and the State Working Group (SWG). We believe that our conversation addressed many of the issues raised in your letters of September 30, 2011 and provided us with greater context and insight into your questions and concerns. We acknowledge that some of the outstanding issues that you have may not be answerable immediately, but we hope that the following response provides you with an indication of our commitment to find answers or solutions to these topics in advance of the required implementation of the Section 209 Policy. This letter attempts to reiterate and further clarify the main points of our discussion in the order of our agenda for the October 14 meeting.

State-owned railroad assets. As we discussed, Connecticut and Massachusetts own railroad assets that Amtrak uses in its daily operations. Some of these assets are used in Section 209 services, and some of these assets are on the Northeast Corridor (NEC) and are therefore not affected by Section 209. Amtrak appreciates that the Section 212 efforts will result in new allocations of costs to Amtrak for use of State-owned NEC assets, and we are optimistic that the cost allocation work of Section 212 will be concluded by the time Section 209 is implemented in October 2013. In the event that the resolution of the Section 212 cost allocation efforts are not complete by the Section 209 implementation date, Amtrak will work with Connecticut and Massachusetts on developing interim

contract-based payment terms consistent with the Section 209 policy that reflect the anticipated completion of the Section 212 cost allocation methodology.

Value of State investment in Amtrak infrastructure. Amtrak appreciates that Connecticut is planning to make substantial investments on the New Haven-Hartford-Springfield Line, which is an Amtrak-owned asset. As we discussed at our meeting, these investments are projected to bring increased riders and revenue and help keep Connecticut and Massachusetts' operating support payments low. Moreover, as part of the Synthetic Host Railroad charge, Connecticut and Massachusetts are only being asked to cover $0.6 million of the $2.9 million annual fully-allocated share of maintenance of way cost with Amtrak being responsible for the remainder, according to the most recent financial data we presented.

As we discussed, the amount of continuing capital investment required in the New Haven-Hartford-Springfield line after the initial improvements is difficult to forecast at this time and will be subject to our mutual development in FY 2012 in advance of the implementation of the Policy. However, we recognize your desire to understand now, at a general level, what on-going capital investments will likely be required to continue the service and performance levels committed to under your grant agreements with the FRA. Accordingly, we will prepare some estimates based on our other experiences to give some guidance as to what these continued investments might be. To reiterate, we look to Connecticut and Massachusetts to determine the level of service and performance desired on this line, which will be the basis for the continued capital investment amounts that we will jointly determine.

Connecting revenue on Shuttle trains. We appreciate the anomalous nature of the Springfield shuttle service and the relationship these trains have to the Northeast Corridor services. These shuttle trains operate in blended service with through-running trains; are scheduled and operated to connect with Northeast Regional trains of similar service type to and from points south of New Haven; offer cross-platform, closely-timed connections and are held for connections when necessary; and are marketed in timetables, stations, and elsewhere on a "code-sharing" basis, making them unique within the Amtrak system. At this time, we are gathering information on our ability to quantify the amount of connecting revenue on the NEC that transfers to or from Shuttle trains. As we discussed, our current ticketing system does not allow us to track connecting trips by individual passenger, and thus create an accurate portrait of revenue that follows such passengers as they connect between the NEC and shuttle trains. Given this, we will work with Connecticut and Massachusetts on possible strategies during this fiscal year to gather such connecting revenue information. Upon either the implementation of such mutually-agreeable strategies or the introduction of Amtrak's new planned ticketing system in the

corridor, assuming this system contains the necessary capabilities, we are open to discussing changes in our then-operative agreements for the shuttle trains to reflect a through-revenue credit for the shuttle service consistent with the 209 Policy.

Real estate, freight, and other revenue. The New Haven-Hartford-Springfield Line generates revenue today from real estate, freight, and other activities. Through the Amtrak Performance Tracking (APT) system, costs on the line are allocated proportionally to Intercity, Commuter, and Commercial users, and the costs associated with these revenues are therefore excluded from the costs that are allocated to Connecticut and Massachusetts, with revenues from each user correspondingly allocated to such costs. Amtrak recognizes that we have not been able to fully present the financial results from these other business lines to Connecticut and Massachusetts, due in part to the continuing transition to both the APT system and a related transition to a SAP enterprise financial system, and we will make arrangements to do so as soon as the data is available and no later than by the end of FY 2012, well in advance of the implementation of Section 209. Finally, we would like to emphasize that the Section 209 Policy leaves open the issue of future revenue opportunities on the line, including real estate development, and how revenues from state or shared investments will be allocated or used by the parties. Likewise, the 209 Policy leaves the parties free to make mutually-agreeable business arrangements regarding rights related to capital assets that benefit from future state or shared investments. Amtrak looks forward to future discussions and collaboration with Connecticut and Massachusetts to maximize the potential of the line.

Operational control. Today Amtrak State partners who support base-increment extensions of NEC services consist of Pennsylvania, North Carolina, Vermont, and Virginia. These States all exercise significant control over fare levels, service levels, and other elements of the service, subject to some appropriate constraints regarding capacity and service levels on the NEC and other Amtrak corporate responsibilities. As the New Haven-Hartford-Springfield Line transitions to Section 209 status, Amtrak expects Connecticut and Massachusetts to collaboratively define the service and service standards for this route and to work with us as cooperative partners to plan, manage, and implement your routes, as we do today with other state partners.

Labor agreements. Amtrak's negotiations with its labor unions are defined by Federal laws and procedures with compensation arrangements linked historically –"pattern bargaining"—based on freight railroad agreements. Due to the past decisions of a labor arbitrator, the New Haven-Hartford-Springfield Line has some unique labor provisions relative to other similar Section 209 services. Amtrak will work with Connecticut and Massachusetts to explore ways of delivering service on the line in a more cost-effective

manner and mitigating the financial impact to the service of this unique situation, and will seek to generally consult with you on labor matters that impact your services.

We hope this letter has further clarified the issues we discussed in New Haven on October 14. We believe there are opportunities to update existing agreements in ways that are consistent with the Section 209 process as described above, and we acknowledge that there are additional materials we need to present and discuss with Connecticut and Massachusetts, also described above. At the same time, we hope that we have further explained parts of the policy itself and how it would apply to the New Haven-Hartford-Springfield line. If this resolves your outstanding concerns, we respectfully request your Governors', or their designees', signature on the concurrence letter of September 1. Otherwise, we remain available to discuss these or other issues in further detail.

Sincerely,

Stephen Gardner
Vice President, NEC Infrastructure & Development

Illinois Department of Transportation
Office of the Secretary
2300 South Dirksen Parkway / Springfield, Illinois / 62764
Telephone 217/782-5597

November 17, 2011

Mr. Thomas C. Carper
Chairman
Amtrak Board of Directors
60 Massachusetts Avenue, NE
Washington, D.C. 20002

Dear Mr. Carper:

On behalf of Governor Quinn, I am writing to provide the State of Illinois' qualified concurrence with the proposed cost-sharing methodology that has been developed by Amtrak and the Section 209 State Working Group. We appreciate and respect the dedicated efforts that all parties have contributed to this undertaking over the past two years.

This qualified concurrence, however, does not represent an agreement on any specific cost figure. In fact, we remain concerned about the effect of the formula on our annual operating subsidy for Amtrak service in Illinois, particularly in light of the investments we have made, and continue to make, with state funds to improve rail service in Illinois. We are also intent on ensuring that Illinois receives due credit for all forms of revenue earned by Amtrak on routes supported by the state of Illinois. To these ends, we look forward to opening negotiations with Amtrak on the subsidy that will take effect in 2013. A preliminary list of issues that will need to be discussed includes, but is not limited to:

- Credit for state funding of current capital investments, such as matching funds for the Chicago-St. Louis and Chicago-Moline projects, as well as the 100% state funding for the restoration of Chicago-Rockford-E. Dubuque service.
- Credit for prior capital investments such as the 2003-2004 installation of quad gates at almost 70 grade crossings.
- The significant enhancement resulting from the state's acquisition of entirely new equipment for both existing and future corridors, with deliveries to start in early 2015.
- Credit for all forms of revenue Amtrak earns on state-supported corridors, including travel agent commissions, private car hauling revenue, etc.
- A recognition allowance for the historical fact that Illinois was the first state in the nation to provide subsidies for Amtrak service, dating back to the 1970s.
- A thorough analysis of the data produced by Amtrak's cost accounting system to ensure that Illinois is being treated equitably
- Exploration of innovative ideas for funding the annual subsidy, including the possibility of a state rail ticket surcharge.

Illinois is proud to be leading the nation in the expansion of passenger rail service, including the development of high-speed rail. We must, however, be sure that the interests of the taxpayers of Illinois are considered and protected as we determine the annual cost for ongoing capital and operational expenses for this important state initiative.

Thank you for your interest in Illinois' transportation system We look forward to continuing to work with you on these issues.

Sincerely,

Ann L. Schneider
Acting Secretary

NATIONAL RAILROAD PASSENGER CORPORATION



September 1, 2011

RECEIVED
SEP 06 2011
GOVERNOR'S OFFICE

The Honorable Jeremiah W. Nixon
Governor of Missouri
Capitol Building
Room 218, P.O. Box 720
Jefferson City, MO 65102

Dear Governor Nixon:

This letter serves to officially transmit the proposed cost sharing methodology and accompanying policy developed by Amtrak and the Section 209 State Working Group (SWG) as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B). Section 209 of PRIIA requires that the Amtrak Board of Directors and relevant States collaboratively develop a common methodology for establishing and allocating operating and capital costs between the parties for all intercity passenger train services operated by Amtrak on routes less than 750 miles outside the Boston-Washington Northeast Corridor, known herein as "Section 209 services". In your State, the Section 209 service includes the *Missouri River Runner* Amtrak corridor route, as we identified in our February 4, 2011 letter to Kevin Keith, Director, Missouri Department of Transportation.

The proposed methodology, captured in the attached Section 209 policy, has been cooperatively developed between Amtrak and the States over the past year and a half. Through the SWG, comprised of representatives from California, Maine, North Carolina, Virginia, and Wisconsin appointed by the American Association of State Highway and Transportation Officials' Standing Committee on Rail Transportation (SCORT) and the States for Passenger Rail Coalition (SPRC), Amtrak and the States have worked hard to create a common and transparent cost sharing methodology which will apply to all routes equally, ensuring that all States are compensating Amtrak in a like manner for like services. Through national, regional, and individual meetings with all impacted States, plus extensive outreach efforts undertaken by the SWG, we have sought to fully engage all States in the development of this policy and have provided opportunities for your State to provide comments, feedback and improvements throughout the development process. Most recently, your rail agency staff was provided this policy in draft form for comment on June 23, 2011 and in final draft form on August 12, 2011

We are now asking for your concurrence with this policy. Concurrence with this policy does not obligate your State to a specific future funding amount or level of service. However, concurrence does indicate your acceptance of the methodology and policy as the ruling basis for any contract with Amtrak for Section 209 services, with the understanding that such policy will govern Amtrak's pricing for such services beginning on October 1, 2013. Between now and then, Amtrak will continue to work with your State's rail staff to develop specific service alternatives and agreements for routes in your State that are affected by Section 209.

Amtrak and the SWG's priority has been to develop a policy in a collaborative way, since failure to reach voluntary agreement between Amtrak and the relevant States on this policy will trigger the provisions of Subsection 209(c) which require that the U.S. Surface Transportation Board (STB) determine the appropriate methodology and require its full implementation by the parties within one year of the STB's decision. Once the policy voluntarily adopted by the parties or imposed by the STB has taken effect, Amtrak will only continue to operate Section 209 services that are governed by funding agreements with States that are consistent with the policy.

While the original statutory deadline to reach agreement on the policy of October 16, 2010 was not met, extension agreements between Amtrak, SCORT, and SPRC afforded us the opportunity to continue to develop the sound policy structure proposed in this transmittal. These agreements to extend negotiations expired on June 16, 2011 and the parties are now free to petition the STB to determine the methodology. It remains our hope that we will reach voluntary concurrence on this policy and avoid turning to the STB for resolution of this important matter.

To that end, we request your concurrence with the policy by you or your designee signing this letter and returning it to the above address by September 30, 2011. Upon receipt of your reply and other states, we will transmit the results to the STB.

We look forward to the swift conclusion of this important process. Amtrak deeply appreciates your support of intercity passenger rail service and the contributions made by your State in developing this policy. We, and the States with which this proposed policy was developed, recognize that implementing this policy may present significant challenges for some States, especially given the current economic climate, but are confident that it represents a thoughtful and fair approach that responds to the requirements of the law. Our partnership with your State is of vital importance to Amtrak and we will endeavor to work collaboratively with you on the successful implementation of this policy, or such other policy as may be ordered by the STB, and strive towards the continuation and improvement of all of today's Amtrak Section 209 services.

Sincerely,

Thomas C. Carper
Chairman, Amtrak Board of Directors

ACCEPTED AND AGREED

Date: 11/17/2011

By: Jeremiah W. (Jay) Nixon

Title: Governor or Governor's Designee

cc: Kevin Keith, Director, Missouri Department of Transportation
Michelle Teel, Multimodal Operations Director, Missouri Department of Transportation
Joseph H. Boardman, President and CEO, Amtrak

Exhibit X

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE. Washington, DC 20002
tel 215 349 1467 fax 215 349 4826

Stephen Gardner
Vice President, Northeast Corridor
Infrastructure and Investment Development

November 8. 2011

Ann L. Schneider. Acting Secretary
Illinois Department of Transportation
2300 S. Dirksen Parkway
Springfield, IL 62764

Dear Ms. Schneider:

On September 1. 2011, we mailed Governor Pat Quinn a letter requesting concurrence with a cost-sharing methodology and policy developed by Amtrak and the Section 209 State Working Group (SWG) (the "Final Policy") as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA. Public Law 110-432. Division B). a copy of which is attached. We requested a response as of September 30, 2011. but as of this writing, we have not heard from the Governor or his designee.

The deadline for implementation of the methodology required by Section 209 is within 5 years after the date of enactment of the Act, or slightly less than two years from today. In order for us to provide the necessary guidance to our partner States and agencies for them to request the funding they need under their budgetary lead times, we are at a point where we must bring this process to a conclusion.

As of this writing, we have received concurring responses from 13 of 19 states. and we are finalizing discussions with 2 other states. Our hope is that your State will join the majority of your sister States and indicate your concurrence with the Final Policy by countersigning the September 30, 2011 letter. If we do not receive a response from all outstanding States by November 15. 2011, we will be petitioning the Surface Transportation Board as required by the statute and ask that it adopt the Final Policy. While we are hopeful the STB will adopt the Final Policy, the statute does allow the STB to adopt an alternative methodology that will bind Amtrak and the States even if we consider that methodology less favorable than the Final Policy.

We remain optimistic that we can conclude this process without the involvement of the STB. We look forward to your prompt and positive response.

Sincerely.

Stephen J. Gardner
Vice President. Northeast Corridor Infrastructure and Investment Development

cc: Joseph Shacter. Director, Division of Public and Intermodal Transportation
George Weber. Deputy Chief. Bureau of Railroads. Illinois Department of Transportation

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue. NE, Washington, DC 20002
tel 215 349 1467 fax 215 349 4826

Stephen Gardner
Vice President, Northeast Corridor
Infrastructure and Investment Development



November 8, 2011

Michael B. Cline, Commissioner
Indiana Department of Transportation
100 N. Senate Ave., IGCN 755
Indianapolis, IN 46204

Dear Mr. Cline:

On September 1, 2011, we mailed Governor Mitch Daniels a letter requesting concurrence with a cost-sharing methodology and policy developed by Amtrak and the Section 209 State Working Group (SWG) (the "Final Policy") as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B), a copy of which is attached. We requested a response as of September 30, 2011, but as of this writing, we have not heard from the Governor or his designee.

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We remain optimistic that we can conclude this process without the involvement of the STB. We look forward to your prompt and positive response.

Sincerely,

Stephen J. Gardner
Vice President, Northeast Corridor Infrastructure and Investment Development

cc: Keith Bucklew, Director, Multi-Modal Planning and Programs, Indiana Department of Transportation

Declaration of Maximilian R. Johnson - Exhibit X (2)

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue, NE, Washington, DC 20002
tel 215 349 1467 fax 215 349 4826

Stephen Gardner
Vice President, Northeast Corridor
Infrastructure and Investment Development



November 8, 2011

Kevin Keith, Director
Missouri Department of Transportation
105 W. Capitol Avenue
Jefferson City, MO 65102

Dear Mr. Keith:

On September 1, 2011, we mailed Governor Jeremiah Nixon a letter requesting concurrence with a cost-sharing methodology and policy developed by Amtrak and the Section 209 State Working Group (SWG) (the "Final Policy") as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B), a copy of which is attached. We requested a response as of September 30, 2011, but as of this writing, we have not heard from the Governor or his designee.

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We remain optimistic that we can conclude this process without the involvement of the STB. We look forward to your prompt and positive response.

Sincerely,

Stephen J. Gardner
Vice President, Northeast Corridor Infrastructure and Investment Development

cc: Michelle Teel, Multimodal Operations Director, Missouri Department of Transportation
Eric J. Curtit, Administrator of Railroads, Missouri Department of Transportation

Declaration of Maximilian R. Johnson - Exhibit X (3)

NATIONAL RAILROAD PASSENGER CORPORATION
60 Massachusetts Avenue NE, Washington, DC 20002
tel 215 349 1467 fax 215 349 4826

Stephen Gardner
Vice President, Northeast Corridor
Infrastructure and Investment Development

November 8, 2011

Paula Hammond, Secretary
Washington State Department of Transportation
310 Maple Park Avenue SE
Olympia, WA 98504-7422

Dear Ms. Hammond:

On September 1, 2011, we mailed Governor Chris Gregoire a letter requesting concurrence with a cost-sharing methodology and policy developed by Amtrak and the Section 209 State Working Group (SWG) (the "Final Policy") as required under Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA, Public Law 110-432, Division B), a copy of which is attached. We requested a response as of September 30, 2011, but as of this writing, we have not heard from the Governor or her designee.

The deadline for implementation of the methodology required by Section 209 is within 5 years after the date of enactment of the Act, or slightly less than two years from today. In order for us to provide the necessary guidance to our partner States and agencies for them to request the funding they need under their budgetary lead times, we are at a point where we must bring this process to a conclusion.

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We remain optimistic that we can conclude this process without the involvement of the STB. We look forward to your prompt and positive response.

Sincerely,

Stephen J. Gardner
Vice President, Northeast Corridor Infrastructure and Investment Development

cc: John Sibold, State Rail and Marine Acting Director, Washington State Department of Transportation

Exhibit Y

Johnson, Maximilian R

From: Riley, Michael D. [MDRiley@indot.IN.gov]
Sent: Thursday, November 17, 2011 3:48 PM
To: Johnson, Maximilian R
Cc: Bucklew, Keith; Franke, Michael; Hillblom, Bruce
Subject: RE: Section 209 update

Max,

Thank you for being patient

We have been informed that the Governors' Office and INDOT Senior Management have vetted the SWG/Amtrak Sec. 209 methodology accompanying the letter dated September 1, 2011 to Governor Daniels, and follow-up letter dated November 8, 2011 to INDOT Commissioner Cline from Stephen Gardner and have decided to not sign the request accepting the SWG/Amtrak methodology.

Again, thank you for your patience.

Mike Riley
Manager Rail Office
INDOT
317-232-1491

From: Johnson, Maximilian R [mailto.Max.Johnson@amtrak.com]
Sent: Monday, November 07, 2011 10.19 AM
To: Riley, Michael D.
Cc: Hillblom, Bruce
Subject: Section 209 update

Hi Mike,

As I said in my phone message, I was hoping to touch base with you on Section 209. As of today, of the 19 states that received letters, we have received signed concurrences from 10 and letters from 5 where they have concurred with comments or some other specific issues we are working through.

At this time, the Amtrak Board of Directors has established November 15 as a firm deadline for hearing back from states about where they stand on Section 209, after which they have told us to inform the Surface Transportation Board that we do not have concurrence. I think it's safe to say that this would be a unique issue for the STB, and as a result there is a lot of uncertainty about how the STB would handle this So over the next week, we are trying to do whatever we can to help all outstanding states get to concurrence.

One approach that we have taken in some states is that we at Amtrak have followed up with the Governor's office to see if there were any questions we could answer directly. Let me know if you think that would be helpful, or if there's anything else we can do.

Thanks,
Max

Max Johnson
Amtrak Policy & Development
Bell 202-906-3880
max johnson@amtrak.com