

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: September 24-25, 2008

Reference No.: 2.6d.
Action Item

From: CINDY McKIM
Chief Financial Officer

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Subject: **FINANCIAL ALLOCATION FOR FY 2008-09 INTERCITY RAIL OPERATIONS AND FEEDER BUS SERVICES RESOLUTION MFP-08-02**

RECOMMENDATION:

The Department of Transportation (Department) recommends the California Transportation Commission (Commission) approve an allocation of \$57,050,877 for support of the Department's intercity rail operations and feeder bus services on the Pacific Surfliner and San Joaquin routes for FY 2008-09 to be funded from the Public Transportation Account (PTA), contingent upon the approval of the FY 2008-09 Budget.

Project Description -

RECIPIENT: Department of Transportation

FUNDED ACTIVITY: Department intercity passenger rail and feeder bus services with Amtrak. \$57,050,877 from the PTA will support the costs of Amtrak contracted service on the two State-administered intercity rail routes in FY 2008-09 as follows:

- \$24,879,368 for the Pacific Surfliner Route (11 San Diego-Los Angeles weekday round-trips, 12 San Diego-Los Angeles weekend round-trips, and five Los Angeles-Santa Barbara daily round-trips with two of these trains continuing to San Luis Obispo, plus three Amtrak Thruway bus routes).
- \$32,171,509 for the San Joaquin Route (four Bakersfield-Stockton-Oakland daily round-trips, and two Bakersfield-Stockton-Sacramento daily round-trips, plus 13 Amtrak Thruway bus routes).

BACKGROUND:

Department Administration of Intercity Rail Services -

Pursuant to Section 99316 of the Public Utilities Code, the Commission has responsibility for allocating funds for intercity rail operating support that are appropriated to the Department for this purpose. Chapter 263 of the Statutes of 1996 (SB 457, Kelly) added Government Code Section

14031.8 and specifies that the Secretary of the Business, Transportation, and Housing (BTH) Agency shall allocate intercity rail operating funds to those intercity rail routes administered by a local joint powers board. In July 1, 1998, the Capitol Corridor Joint Powers Agency (CCJPA) assumed responsibility for administration of the Capitol Corridor. Thus, the Secretary of BTH is responsible for allocating funds for that route.

Because the Commission does not allocate funds for the Capitol Corridor, this Route is not covered in detail in this document. However, data is provided for FY 2008-09 on costs and revenues and the appropriation level for the Capitol Corridor and for farebox ratios from Federal Fiscal Year (FFY) 2006-07 through FFY 2008-09 on the three State funded intercity rail routes. Additionally, on a quarterly basis, the Department provides the Commission data and analysis presenting actual ridership, expenses, revenues, and farebox ratio on all three intercity routes.

Intercity Rail Appropriation in the Proposed FY 2008-09 Budget -

Provision 1 of Item 2660-001-0046 of the Proposed FY 2008-09 Budget appropriates \$86,338,000 in PTA funds for intercity rail services. The amounts for each route are not specified in the Budget. The appropriation amount is based on Amtrak's contract estimates for State costs for rail services on the Pacific Surfliner, San Joaquin, and Capitol Corridor routes. The table below shows how the \$86.34 million is distributed among the three routes.

FY 2008-09 Budget Appropriation (Item 2660-001-0046) For State-Supported Intercity Rail Routes	
ROUTE	PTA FUNDS
Pacific Surfliner	\$24,879,368
San Joaquin	\$32,171,509
Allocation Request	\$57,050,877
Capitol Corridor	\$29,287,123
Budget Total	\$86,338,000

Allocation Amount -

Pacific Surfliner and San Joaquin Routes

The Department is requesting an allocation of \$57,050,877 for the Pacific Surfliner and San Joaquin routes. This allocation request will fund service on the two routes for FFY 2008-09 (October 2008 – September 2009). The table on the following page compares the funds requested for FFY 2008-09 to those allocated for FFY 2007-08, as well as actual State cost for FFY 2006-07.

Trends in State Costs

As reflected in the following table, combined State costs in FFY 2008-09 for anticipated services on the San Joaquin and Pacific Surfliner routes are projected to be \$57,050,877. This is an increase of only \$1,512,231 (three percent) over the previous year. Operating costs on the Capitol Corridor are

projected to increase by \$5.1 million over the previous year (21 percent). This brings the total increase in operating costs on the three routes to \$6.6 million.

The increased operating costs are primarily related to increases in labor and fuel costs. In the spring of 2008, nine labor unions ratified new labor agreements with Amtrak. These were the first wage increases for these unions since 2000, and wages are projected to increase by 35 percent. Diesel locomotive fuel costs are also projected to increase significantly in FFY 2008-09. However, the increase in net operating costs is projected to be only \$6.6 million because while expenses are projected to increase by \$22.5 million (14 percent), revenues are projected to increase by 15.9 million (18 percent) over FFY 2007-08, as the result of dramatically increasing ridership.

As noted above, costs on the Capitol Corridor are projected to increase at a higher rate than the other two routes. This is to adjust for the fact that actual expenses for FYs 2006-07 and 2007-08 have been significantly higher than budgeted. So the FY 2008-09 operating budget for the route needed to be increased considerably over the FY 2007-08 operating contract amount.

FFY 2006-07 – 2008-09			
State Costs for State Supported Intercity Rail Routes			
(\$ in thousands)			
ROUTE	FFY 2006-07 (Allocation)	FFY 2007-08 (Allocation)	FFY 2008-09 (Current request)
Pacific Surfliner	\$22,150	\$23,074	\$24,879
San Joaquin	\$27,402	\$32,465	\$32,172
State-Administered Routes - Totals	\$49,552	\$55,539	\$57,051
Capitol Corridor	\$23,586	\$24,151	\$29,287
All Routes - Totals	\$73,138	\$79,690	\$86,338

Allocation Transfer Between Routes

The Commission has recognized in its allocation resolutions for prior years that actual expenditures by route may differ from the estimates provided in the allocation request. Thus, as in prior years, the Department requests the Commission grant the authority to transfer between the San Joaquin and Pacific Surfliner State-administered routes up to ten percent of the amount allocated to each route, based upon actual expenditures or emergency situations. The Commission must approve changes above ten percent prior to expenditure.

Financial Performance of Routes -

The table on the following page shows the projected financial performance of the three State-supported routes. Total expenses for State-supported services (operating expenses and minor capital costs), less revenues from passengers (ticket revenue plus food and beverage revenues) equal the net loss of services, which is covered by the State. For the three State-supported intercity routes, Amtrak projects total operating expenses of \$187.17 million and minor capital costs of \$750,000. Subtracting passenger revenue of \$101.58 million results in State support of \$86.34 million. The composite farebox ratio for the three State-supported routes is projected at 54 percent. Farebox ratio

equals revenues divided by total operating expense; minor capital costs are not included in total expenses used to calculate the farebox ratio. The farebox ratio for the Pacific Surfliner Route is projected at 63 percent, the San Joaquin Route at 51 percent, and the Capitol Corridor at 47 percent.

FFY 2008-09					
State-Supported Intercity Rail Routes					
Projected Financial Performance					
(\$ in thousands)					
ROUTE	TOTAL EXPENSES	PASSENGER REVENUES	MINOR CAPITAL EXPENSES**	NET LOSS (STATE SUPPORT)	FAREBOX RATIO**
Pacific Surfliner *	\$66,431	\$41,802	\$250	\$24,879	63%
San Joaquin	\$65,449	\$33,527	\$250	\$32,172	51%
Capitol Corridor	\$55,289	\$26,252	\$250	\$29,287	47%
Totals	\$187,169	\$101,581	\$750	\$86,338	54%

* Excludes Amtrak 30 percent basic system share of route.

** Minor capital expenses are not included in the calculation of the farebox ratio.

The following table shows the farebox recovery ratios for all three routes from FFY 2006-07 through FFY 2008-09. Note that the FFY 2007-08 year-to-date data on all three routes does not include the high ridership summer months that traditionally bring up the full-year farebox ratio. For example, the combined farebox ratio for FY 2007-08, July 2007 – June 2008, is 51 percent (Pacific Surfliners at 61 percent, San Joaquins at 45 percent, and Capitol Corridor at 43 percent). The farebox ratios for FFY 2008-09 on all three routes are projected to be higher than FFY 2007-08 year-to-date, as well as State FY 2007-08.

FFY 2006-07 – 2008-09			
State-Supported Intercity Rail Routes			
Farebox Ratios			
ROUTE	FAREBOX RATIO		
	FFY 2006-07 (Actual)	FFY 2007-08 (Actual Oct-May)	FFY 2008-09 (Budget)
Pacific Surfliner	62%	55%	63%
San Joaquin	44%	44%	51%
Capitol Corridor	42%	43%	47%
Totals	50%	47%	54%

Operating Cost Outlook for FY 2008-09 and Beyond -

In the past two years, Amtrak operating costs have increased for the first time since FFY 2002-03. In FFY 2007-08 costs increased by \$6.6 million, primarily for fuel. In FFY 2008-09, operating contract costs will also increase by \$6.6 million, primarily for increased fuel and labor costs. Amtrak and the Department will continue to work to increase revenues and contain expenses. This will be challenging due to the volatility of fuel costs.

The Department's ten-year vision as presented in the Draft *2007-08 – 2017-2018 California State Rail Plan* for the Pacific Surfliner Route is hourly service (13 round-trips) between Los Angeles and San Diego, with the 12th round-trip from San Diego to Los Angeles to start in 2011-12. The Department's ten-year vision for the San Joaquin Route is eight round-trips, with a third round-trip between Bakersfield and Sacramento (for a total of seven round-trips) to start in 2011-12. New equipment is projected to be delivered in 2011-12, allowing the start of additional frequencies. Additional funds for operating costs will be needed to support these additional frequencies.

Attachment

CALIFORNIA TRANSPORTATION COMMISSION

Commission Allocation Approval Federal Fiscal Year (FFY) 2008-09 Amtrak (Intercity Rail) Operating Support

Resolution MFP-08-02

- 1.1 WHEREAS, under Section 99316 of the Public Utilities Code, the California Transportation Commission (Commission) has responsibility for allocating intercity rail operating funds that are appropriated to the Department of Transportation (Department) for Department-administered corridors; and
- 1.2 WHEREAS, Provision #1 of Item 2660-001-0046 of the proposed Budget Act of 2008-09 appropriates \$86,338,000 of Public Transportation Account (PTA) funds for intercity rail services; and
- 1.3 WHEREAS, Government Code Section 14031.8 specifies that the Secretary of the Business, Transportation and Housing (BTH) Agency shall allocate intercity rail operating funds to those intercity rail routes administered by a local joint powers board. On July 1, 1998, the Capitol Corridor Joint Powers Agency (CCJPA) assumed responsibility for administration of the Capitol Corridor. Thus, the Commission does not allocate funds for that route; and
- 1.4 WHEREAS, \$29,287,123 in budget funds are reserved for the Capitol Corridor, and the remaining \$57,050,877 in budget funds are reserved for the San Joaquin and Pacific Surfliner routes; and
- 1.5 WHEREAS, for the three state-supported intercity routes, Amtrak projects total operating expenses, including minor capital costs, of \$187.9 million. Subtracting passenger revenue of \$101.6 million, results in State support of \$86.3 million. The composite farebox ratio for the three State-administered routes is projected at 54 percent (revenues/total operating expense), while the farebox ratio for the Pacific Surfliner Route is projected at 63 percent, the San Joaquin Route at 51 percent and the Capitol Corridor at 47 percent; and
- 1.6 WHEREAS, the Commission recognizes that actual expenditures on the Pacific Surfliner and San Joaquin route may differ from current estimates. For changes of ten percent or less, the Department has total flexibility to transfer funds between the Pacific Surfliner and San Joaquin routes; changes above ten percent must be approved by the Commission prior to expenditure. Transfers can be made based upon actual expenditures or emergency situations.

2.1 NOW THEREFORE BE IT RESOLVED, that a total of \$57,050,877 be allocated to the Department for intercity rail operations and feeder bus services with Amtrak as follows:

Pacific Surfliner Route	\$24,879,368
<u>San Joaquin Route</u>	<u>\$32,171,509</u>
TOTAL	\$57,050,877

2.2 BE IT FURTHER RESOLVED, that authority is delegated to the Department to transfer funds between the Pacific Surfliner and San Joaquin routes if the changes are less than or equal to ten percent; and

2.3 BE IT FURTHER RESOLVED, changes above ten percent must be approved by the Commission prior to expenditure.