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The Allocation of Costs and Control: A Case Study of PRIIA Section 209 and Amtrak State-Supported Routes

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1. Introduction

The relationship between the National Railroad Passenger Corporation (Amtrak) and the states in which they operate services is heavily influenced by how these different entities share costs. The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) included a new costing methodology, Section 209, that fully allocated the operating and capital costs among the states in which Amtrak's intercity passenger routes operate.[1] The goal of Section 209 was to standardize costs and fix issues of cost predictability, granularity, and transparency with Amtrak's accounting. In reality, it not only increased the costs for the states to continue operating intercity routes, but it seems to have exacerbated the issues the policy hoped to fix.

This report examines how PRIIA Section 209 impacted Amtrak intercity routes and state partners, using the Pacific Surfliner route as a case study. The Pacific Surfliner passenger rail service in California is an Amtrak intercity route that is managed and administered by the LOSSAN Rail Corridor Agency (LOSSAN Agency) and is funded by the State of California.[2] At approximately three million annual riders, the Pacific Surfliner is the second busiest Amtrak intercity route in the country.[3] The 351-mile LOSSAN Rail Corridor travels mainly along the California Coastline, as shown Figure 1.

Source: Amtrak, "Pacific Surfliner Route Map," accessed February 9, 2022, https://www.pacificsurfliner.com/destinations/.

Figure 1. Map of LOSSAN Rail Corridor

To determine how the cost policy impacted the Pacific Surfliner service, the study draws on both an analysis of ridership and financial data and expert interviews. Sections 2 and 3 present an overview of PRIIA and the Pacific Surfliner. The following section presents the study findings from a comparison of ridership and farebox recovery statistics before and after the implementation of PRIIA Section 209, as well as interviews with staff from the LOSSAN Agency and the State of California to assess their views on how PRIIA has affected their working relationship with Amtrak. To conclude, Section 5 summarizes the key findings about the best path forward for the LOSSAN Agency and State of California to maintain successful operation of Amtrak intercity service within the confines of PRIIA Section 209.

2. PRIIA Introduces a New Way to Pay for Amtrak Service

The 2008 PRIIA legislation built upon a half-century of federal management of the nation's passenger rail service through Amtrak. The proliferation of the automobile in the 1960s and 1970s caused passenger rail ridership to decline to a point that made it financially impractical for railroad companies to continue providing passenger service. The federal government, recognizing the value of keeping the network of passenger rail in the US, passed the Rail Passenger Service Act of 1970, which allowed Amtrak to take over national passenger rail operations. When Amtrak ridership became stagnant in the 1980s and 1990s, the Amtrak Reform and Accountability Act of 1997 was passed, which required Amtrak to be profitable without government subsidy by 2003.[4] This requirement almost led to the dissolution of Amtrak and the privatization of passenger rail until dedicated funding mechanisms for Amtrak services were federally legislated in 2008.

PRIIA reauthorized federal support of Amtrak and allows the US Department of Transportation (DOT) to provide grants to Amtrak for operating and capital expenses.[5] PRIIA includes new funding mechanisms for three categories of Amtrak routes: long-distance trains, Northeast Corridor trains, and intercity trains. PRIIA uses the Amtrak Performance Tracking (APT) cost accounting system as the basis for the new funding mechanisms, which links operational costs, priced and negotiated by Amtrak, to specific routes.[6] Amtrak's former cost accounting system, the Route Profitability System (RPS), was developed to provide high-level output for cost and revenue reports to Congress, so its reporting was limited and often criticized for lack of transparency and granularity.[7] To correct Amtrak's financial transparency and reporting issues, the Consolidated Appropriations Act of 2005 implemented the APT system in FY 2009 to replace the RPS.[8] Amtrak hoped that using this updated cost accounting system for the new PRIIA funding mechanisms would standardize costs among the state partners and create more transparency and predictability in budgeting.[9]

Arguably, the most significant requirement that PRIIA established for Amtrak's intercity passenger routes was in Section 209. PRIIA Section 209 legislated a "single, nationwide standardized methodology for establishing and allocating the operating and capital costs among the states and Amtrak."[10] This agreement on and development of a costing methodology required a monumental effort and cooperation from a variety of agencies. Amtrak coordinated with its state partners, including California, and the Federal Railroad Administration (FRA), the Surface Transportation Board (STB), the American Association of State Highway and Transportation Officials (AASHTO), the States for Passenger Rail Coalition, the John A. Volpe National Transportation Systems Center, and other regional transportation authorities to determine how to allocate costs to the state partners.[11] In 2013, five years into the implementation of PRIIA, the Section 209 cost allocation methodology was implemented, wherein all operational cost responsibility and the total capital costs of Amtrak-owned locomotives and cars shifted to the state partners.[12] Table 1 shows a breakdown of the individual costs that make up the total operating cost of an intercity route per the new cost methodology policy.

Table 1. PRIIA Section 209 Operating Cost Pricing Methodology

TOTAL NET COST TO STATE =

ROUTE COSTS		3rd PARTY COSTS		PASSENGER AND OTHER ALLOCATED REVENUE
▪ Commissions ▪ Concessions ▪ Connecting Bus Service ▪ General and Administrative[i] ▪ Insurance Costs ▪ Maintenance of Equipment[ii] ▪ On Board Service[ii] ▪ Police and Security[ii] ▪ Reservation and Call Center ▪ Route Stations ▪ Sales and Marketing[ii] ▪ Shared Station ▪ Terminal Maintenance of Way ▪ Terminal Yard Operations ▪ Train and Engine Labor[ii]	+	▪ Fuel and Power ▪ Host Railroad Maintenance of Way ▪ Host Railroad Performance	−	▪ Farebox ▪ Food and Drink Sales

i = These costs are an Additive Fee on Total Route Costs
ii = Includes Route Costs + Additive Fee
Data Source: State-Amtrak Intercity Passenger Rail Committee (SAIPRC), “PRIIA Section 209 Cost Methodology Policy,” amended February 20, 2020.

Amtrak, the FRA, and the state partners created the State-Amtrak Intercity Passenger Rail Committee (SAIPRC) in 2015 to “promote mutual cooperation and planning related to Amtrak’s rail operations and related activities on state-supported routes.”[13] SAIPRC includes several working groups to facilitate discussion relating to PRIIA Section 209, such as the APT Working Group that investigates the cost methodology policy and the Reports Working Group that reviews the Cost Validation Reports that Amtrak distributes monthly to the state partners.[14]

3. Governance and Funding of the Pacific Surfliner

This section first describes how the governance structure for the Surfliner evolved over the past half-century and then explains the funding sources that support the service.

Governing Structure

In 1976, the California Legislature selected Caltrans to oversee Amtrak services in the State. Caltrans used Section 403(b) of the Rail Passenger Service Act of 1970 to subsidize additional intercity service, which allowed the Pacific Surfliner service to grow. Per this Act, the initial reimbursement required by Caltrans for the additional intercity service was 50 percent of Amtrak's losses.[15]

Today, the LOSSAN Agency oversees administering and managing the Pacific Surfliner, but the agency had a different function when the group was originally formed in the 1980s. In 1985, a California Legislative bill established the LOSSAN Corridor State Rail Study Group to study the rail corridor and recommend capital improvements to improve passenger rail service.[16] The LOSSAN Corridor State Rail Study Group included Amtrak, the Santa Fe Railroad (formerly AT&SF and currently BNSF Railway), and regional agencies and consultants.[17] The LOSSAN Corridor State Rail Study Group transformed into the LOSSAN Agency in 1989 as a joint powers authority (JPA) governed by a Board of Directors (Board) to continue overseeing capital improvements along the LOSSAN Rail Corridor.[18] The LOSSAN Agency did not oversee the Pacific Surfliner service until 2015.

In the 2000s, the governance of intercity rail services in California began to change. Former California Governor Brown's 2013 state agencies reorganization plan consolidated all transportation-related entities, including Caltrans, and created the CalSTA to oversee them.[19] CalSTA's mission is to "develop and coordinate the policies and programs of the state's transportation entities to achieve the state's mobility, safety and air quality objectives from its transportation system."[20] The Pacific Surfliner is now one of three state-supported Amtrak intercity routes that CalSTA oversees. The other two routes are the San Joaquin, managed by the San Joaquin Joint Powers Authority (SJJPA), and the Capital Corridor, managed by the Capitol Corridor Joint Powers Authority (CCJPA). Caltrans functions to manage the California passenger rail network, administer State and Federal grant funding, and provide procurement and technical support.

The year 2015 marked a pivotal shift in governance of the Pacific Surfliner. Up to this point, Caltrans had been managing both the Pacific Surfliner service and the LOSSAN Agency, relying on staff support for capital programs from the San Diego Association of Governments (SANDAG), a member agency of the LOSSAN Agency JPA.[21] In 2015, however, Caltrans transferred administration and management of the Pacific Surfliner operations to the LOSSAN Agency through an interagency transfer agreement (ITA) made possible by California Senate Bill (SB 1225).[22] The bill is also known as the Intercity Passenger Rail Act of 2012. Senator Alex Padilla introduced SB 1225 to facilitate local authority of the Pacific Surfliner and LOSSAN Rail Corridor following the successful transfer of the Amtrak Capital Corridor to the newly formed CCJPA.[23] The LOSSAN Agency hired its own full-time staff, supported by the Orange County Transportation Agency's (OCTA) administrative and human resources departments. The current governance structure of the Pacific Surfliner is shown in Figure 2.

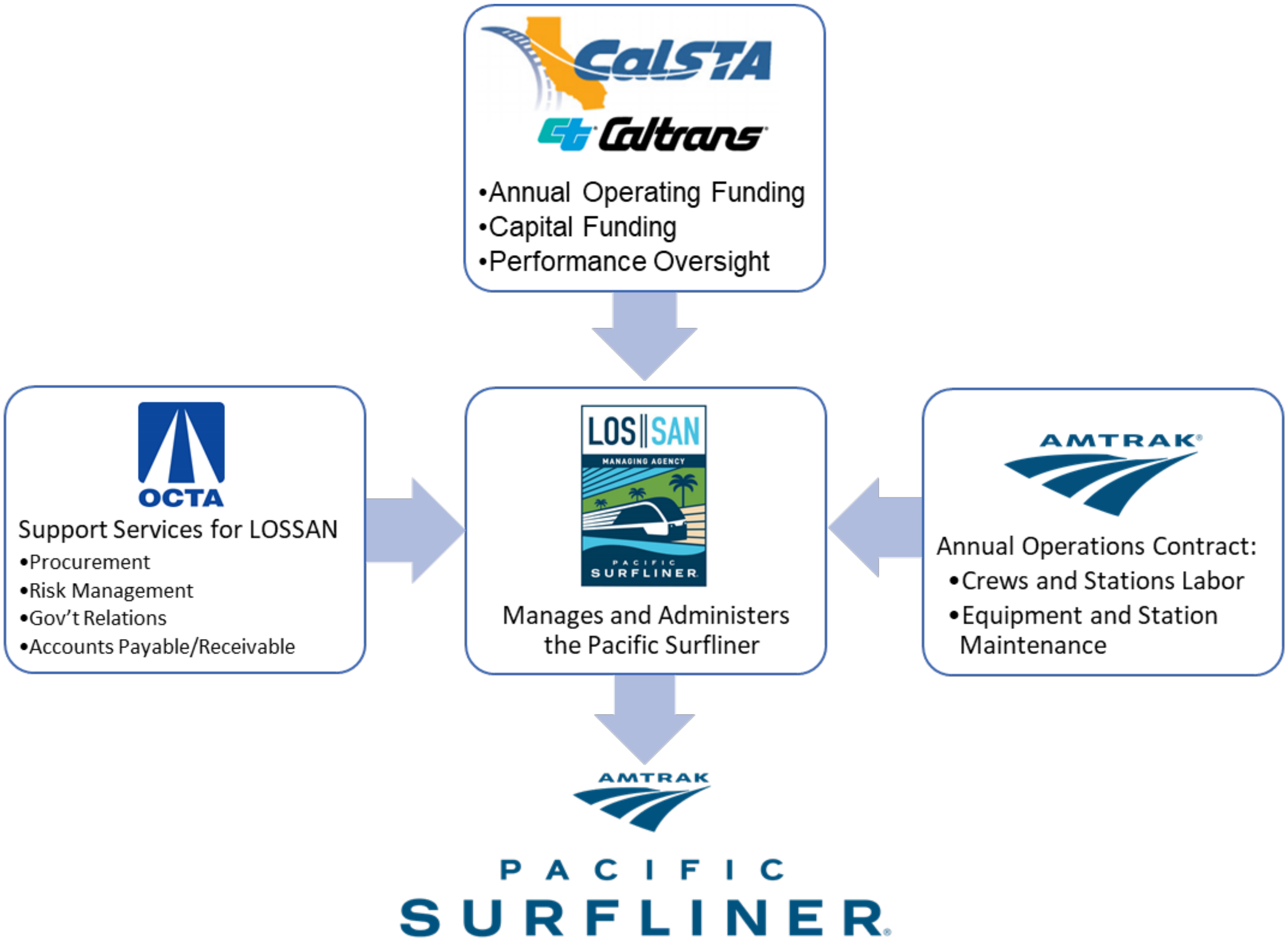


Figure 2. Governance Structure for the Pacific Surfliner

Cost Responsibility for the Pacific Surfliner

Prior to the implementation of PRIIA Section 209, the State shared cost responsibility for the Pacific Surfliner with Amtrak in various percentages, as shown in Table 2. With the implementation of the PRIIA Section 209 cost methodology policy in 2013, costs for the Pacific Surfliner service increased over 30 percent for the State of California from the previous year.

Table 2. Chronology of State Subsidy for Pacific Surfliner

Date Range	State Subsidy
1976-1983	48.5% of operating loss, including equipment costs
1983-1995	65% of operating loss + 50% of depreciation and interest for equipment capital cost (all trains)
1994	100% of operating loss for the single additional roundtrip between Los Angeles and Santa Barbara
1995	70% of operating loss for the single additional roundtrip between Los Angeles and Santa Barbara
1995-1996	100% of operating loss + 60% of equipment capital cost for the State-supported 64% of train service on the route
1996-1997	55% of operating loss + 100% of equipment capital cost for the 64% State share
1997-2004	67% (Amtrak bills the State contractually specified percentages of most individual cost elements, plus a fixed amount for certain other cost elements)
2004-2013	70% of train service on the route to reflect additional State-supported service
2013-current	100% of total operating costs + capital costs of Amtrak-owned equipment per PRIIA Section 209 Cost Allocation Methodology

Source: LOSSAN Agency, “LOSSAN Rail Corridor Agency Business Plan FY 2021-22 to FY 2022-23,” April 2021.

Each intercity rail managing agency is responsible for submitting an annual business plan to the Secretary of CalSTA, which allows CalSTA to allocate funding to the agencies once the State budget is approved. These business plans outline the performance of the service they manage and provides a two-year projected budget for the operation, administration, and marketing of the service. The intercity rail managing agencies rely upon cost reports from Amtrak to develop the budget to submit to the State for funding. Currently, funding from the State of California for the operation of and capital support for intercity train service comes from the Public Transportation Account (PTA), which is funded through State sales tax on diesel fuel, and is dispersed through the State Rail Assistance (SRA) Program on a formula basis to the managing agencies. The passage of Senate Bill 1 (SB 1) in 2017 increased the State sales tax on diesel fuel by four percent, with 0.5 percent dedicated as a continuous appropriation for intercity and commuter rail purposes.

4. Study methods

I began collecting data from published agency documents, followed by expert interviews to contextualize and build upon the data gathered from literature.

Quantitative data pulled from the 2021 LOSSAN Business Plan provided a comparison of the Pacific Surfliner’s operating performance before and after the 2013 implementation of PRIIA Section 209. CalSTA developed performance standards and metrics for the Pacific Surfliner per SB 1225, which included ridership and farebox recovery metrics appropriate for determining the successful or unsuccessful operation of the Pacific Surfliner. Ridership data shows the effect of impacts to service, which can be analyzed to determine root causes. Changes in ridership are typically attributed to changes to the train schedule, service delays due to weather or train congestion, and adding or removing daily trips. A decline in ridership indicates that something needs to be mitigated. Farebox recovery data measures the efficiency of the service. A minimum 55 percent farebox recovery rate (percentage of operating expenses covered by fare revenue) is mandated by SB 1225. The rate of farebox recovery is tracked annually. If the rate of farebox recovery declines from the previous year, it indicates a problem that needs attention.

Using the findings from the Pacific Surfliner's operating performance before and after the 2013, I then developed interview questions to ask former and current Amtrak, CalSTA, and LOSSAN Agency staff. This panel of experts included:

- Andrew Galloway – Former Deputy Chief of Planning for Amtrak
- Chad Edison – Current CalSTA Chief Deputy Secretary of Rail and Transit
- Donna DeMartino – Current LOSSAN Agency Managing Director
- Jason Jewell – Current LOSSAN Agency Finance and Administration Manager
- Jennifer Bergener – Former LOSSAN Agency Managing Director (2013-2020)
- Linda Culp – Former LOSSAN Agency Manager (with SANDAG providing staffing for Caltrans)

Interview questions focused on opinions, or sentiment, of the LOSSAN Agency and the State of California regarding the implementation of PRIIA Section 209 and its impact on their relationship with Amtrak. Lastly, interview responses provided opinions on a suitable path forward to maintain successful operation of intercity service within the confines of PRIIA Section 209.

5. Findings

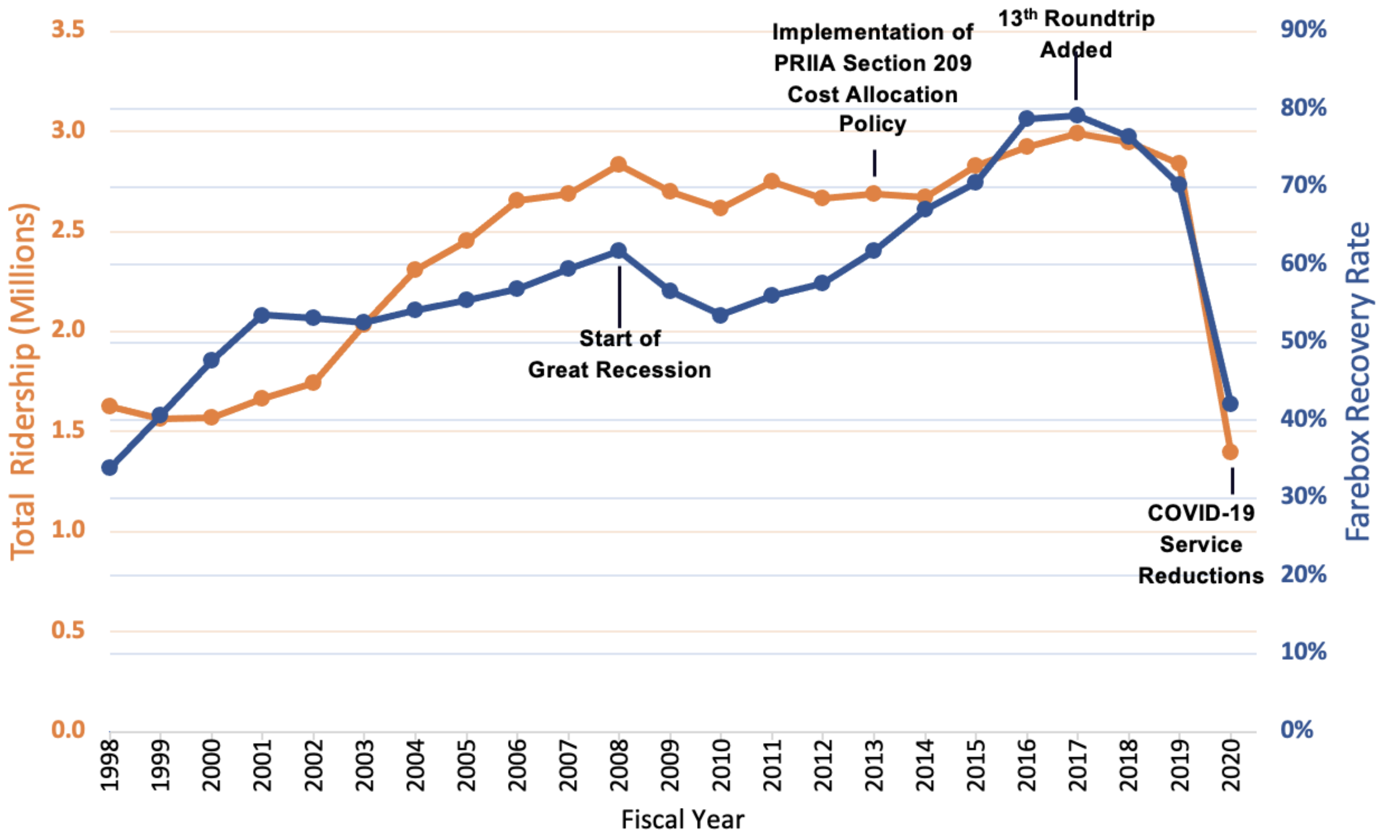
Evaluation findings show that the Pacific Surfliner remained successful despite PRIIA Section 209, but that the cost methodology policy has impacted the agencies that fund and manage the service. The successful trend of the Pacific Surfliner was thwarted by the COVID-19 pandemic, which uncovered additional concerns with PRIIA Section 209 and the relationship with Amtrak.

Success Despite Cost Increases

Key factors that contributed to the continued success of the Pacific Surfliner after the implementation of the PRIIA Section 209 included the State of California's longtime support of passenger rail; local control of the service that led to better cost control, better food and beverage products, and robust, locally targeted marketing efforts; and a new and substantial infusion of financial resources to fund transit and rail.

A primary concern with PRIIA Section 209 was that fully allocating costs to the state partners would create a gap in the state's ability to fund these services. If the state partners were unable close this funding gap, they may have had to minimize costs by running fewer trains until they can secure additional funding. Decreasing service means fewer passengers are riding trains and paying fares. If this were true for the State of California, the Pacific Surfliner would have seen lower ridership and farebox recovery rates. Instead, the State was able to maintain full funding for the Pacific Surfliner and ridership and farebox recovery rates rose after 2013, as shown in Figure 3, at least until service was reduced nationally due to the COVID-19 pandemic and resulting State stay-at-home orders.

Figure 3. Pacific Surfliner Annual Ridership and Farebox Recovery Rate for FY 1998 to FY 2020



Source: LOSSAN Agency, "LOSSAN Rail Corridor Agency Business Plan FY 2021-22 to FY 2022-23," 2021.

The State of California's support of transit and rail, both politically and financially, allowed them to cover the fully allocated costs to operate the Pacific Surfliner due to PRIIA Section 209. Chad Edison, current CalSTA Chief Deputy Secretary of Rail and Transit, credited the high focus on transit during the former administration under California Governor Jerry Brown for the investments made in State passenger rail.[24] Edison attributed the State's dedicated funding capacity as another factor that contributed to the successful performance of the Pacific Surfliner after 2013.[25] He noted that prior to the implementation of PRIIA Section 209, the State was spending roughly $90 million annually on Amtrak subsidies, which went up to about $120 million after 2013.[26] Some of this cost increase was attributed to service expansion costs of the Pacific Surfliner, unrelated to PRIIA Section 209, but the majority was due to new cost methodology policy.[27] The PTA had enough of a balance that it was able to absorb the increase in funding requests for operation of the Pacific Surfliner.[28] However, it did result in less funding available for the State Transportation Improvement Program (STIP) for rail capital investments.[29]

The State's dedicated funding capacity also contributed to the successful performance of the Pacific Surfliner, despite the implementation of PRIIA Section 209. Jennifer Bergener, former LOSSAN Agency Managing Director, and Linda Culp, former LOSSAN Agency Manager with SANDAG, referred to the local control initiated by SB 1225 and the subsequent ITA as a success factor.[30] They also noted SB 1 as a factor that provided a massive infusion of financial resources into transportation, which allowed the State to continue funding the Pacific Surfliner.[31]

Simultaneous to the shift in cost responsibility, the LOSSAN Agency took over and launched full-fledged marketing efforts and improvements to service to attract additional riders.[32] Having the LOSSAN Agency manage the Pacific Surfliner service provided what Bergener described as a "truly boots on the ground, locally-driven, decision-making process where [the LOSSAN Agency could] use their connections locally to help the cost."[33] For example, the LOSSAN Agency was no longer beholden to Amtrak's food and beverage vendors and was instead able to select locally sourced, fresh food and beverage vendors that resonated better with Pacific Surfliner riders.[34] This drove up sales, making it more profitable for the LOSSAN Agency on top of being able to control costs at the local level.[35]

In another successful marketing strategy, the LOSSAN Agency was able to have staff travel to the convention and visitor bureaus (CVB) for the counties they serve. Bergener described this as tremendously instrumental in building local relationships and driving ridership, which boosted ticket revenue.[36] Culp noted that local control also led to creating popular special event trains, such as the trains to baseball games at the Angel Stadium of Anaheim, and the trains to San Diego Comicon, resulting in increased ridership.[37]

A Flawed Cost Allocation System

Key findings indicate that the cost methodology policy did not realize what it intended to provide. In addition to fully shifting operating costs to the state partners, PRIIA Section 209 was meant to generate invoices with a granular level of detail and transparency that the state partners could use for more accurate budgeting and easier justification of payment to Amtrak.

The long and arduous effort to develop the cost methodology policy diminished what was actually implemented in 2013. Bergener stated that the PRIIA Section 209 cost methodology policy was "intended to be [written with] permissive language and not prescriptive."[38] She recounted that the cost methodology policy was implemented with the help of the STB to move the policy forward, but that SAIPRC, the FRA, the state partners, and Amtrak agreed to go back and revisit the methodology, which has not happened.[39] Edison described that the state partners initially assumed they would be charged direct costs for their routes, plus support fees and other additives.[40] Once it became too complicated, the cost methodology policy included Amtrak's defined categories of costs instead.[41]

Additionally, PRIIA Section 209 allows for substantial capital funding from Amtrak that has not been actualized. Edison remarked that PRIIA Section 209 was written in a way where the State's capital costs, including capital equipment, could be 80 percent funded by the federal government.[42] Edison continued that Amtrak has not made an active decision to invest capital funding in California to his knowledge.[43] Since 2015, $4.7 billion was spent on California passenger rail, which included $151 million contributed by the federal government and less than $5 million contributed by Amtrak due to the existing agreement between the State and Amtrak.[44]

Interview panel experts disagree on whether PRIIA Section 209 is a fully allocated cost model or not, which reflects differing opinions on the level of transparency the cost policy provides. Andrew Galloway, former Deputy Chief of Planning for Amtrak, relayed that since Amtrak covers some costs, like the national reservation system and some labor costs for train crews, it is not a fully allocated cost model.[45] LOSSAN and CalSTA interviewees believe that all Amtrak costs are allocated through PRIIA Section 209. Jason Jewell, LOSSAN Agency Finance and Administration Manager, described agreed-upon additive rates in the PRIIA Section 209 cost methodology policy that capture costs not directly associated with a route.[46] The additive rates include costs like Amtrak's national IT support, national executive support, and national marketing support, which are allocated to the state partners.[47] Bergener contended that if Amtrak claims that they do not fully allocate costs through the Section 209 cost methodology policy, it is due to their accounting issue and is not to an unwillingness by the state partners to pay 100 percent of the costs.[48]

Interview findings reveal that the APT cost accounting system used as the basis for PRIIA Section 209 is outdated and insufficient in providing cost details to the state partners. Bergener believes that Amtrak's accounting system is technology-constrained and that it is "unconscionable" that a company of their size and complexity has not budgeted for or received funding from Congress for an enterprise asset management system that allows them to allocate costs appropriately.[49] Edison remarked that the cost methodology policy does not have any ties to how Amtrak manages their company and that it is a "black box accounting system" that provides little documentation.[50] Edison continued by stating the only way Amtrak can price their services is to "look in the rearview mirror," then apply adjustment and inflation factors.[51] Edison and Jewell explained that Amtrak costs are based on statistics, which is not always a fair allocation of costs.[52] Jewell used the example of the number of boards and deboards as the statistic to allocate costs for services at Los Angeles Union Station. When Amtrak long-distance services were reduced by two-thirds in October 2020, it greatly reduced their boards and deboards statistic whereas the boards and deboards for the Pacific Surfliner remained consistent.[53] This resulted in the LOSSAN Agency responsible for a greater share of the costs than before the long-distance service reduction.[54]

The reduction in Pacific Surfliner service caused by the COVID-19 pandemic revealed additional flaws with the PRIIA Section 209 cost methodology policy. When current Managing Director Donna DeMartino joined the LOSSAN Agency, it was only 45 days before the State initiated its stay-at-home orders due to the COVID-19 pandemic.[55] This resulted in a massive decline in ridership and a reduction in service for the Pacific Surfliner and all transit services nationwide. DeMartino remarked that costs invoiced by Amtrak for the Pacific Surfliner during these service reductions were as high or higher than costs invoiced for typical service levels, but that Amtrak could not provide supporting evidence for the costs.[56] Jewell commented that it is now universally understood by all the state partners and Amtrak that the PRIIA Section 209 cost methodology policy does not work when reductions are made across the country, which had not been experienced before the COVID-19 pandemic.[57] He described that when the intercity routes reduced or eliminated service, it shifted the operating and capital costs from one state to another since Amtrak is not responsible for these costs under PRIIA Section 209.[58]

A lack of predictability, granularity, and transparency in Amtrak's cost accounting is a common finding among industry experts, which interview data corroborates. In 2001, before the enactment of PRIIA, the Cato Institute released a research article that argues that Amtrak had lost credibility, in part due to its costs and subsidies. The authors argue that the ratio of Amtrak's subsidy to revenue was "excessive" and noted a 1998 US GAO report that found a two-to-one ratio for costs of Amtrak intercity routes versus revenue earned.[59] The authors also argue that Amtrak is not transparent when calculating its subsidies, leaving out subsidies from government-backed loans.[60] Edison recounted previous instances of Pacific Surfliner service remaining constant from one month to the next, whereas Amtrak changed or renegotiated costs, which unpredictably increased the costs invoiced to the State.[61] He further remarked that the State finds it difficult to budget for growing the Pacific Surfliner service the way they intend given the uncertainty of how Amtrak performs on a monthly basis and how those costs will be allocated to them.[62] Edison continued, noting the State is able to spend money in a way that provides contingency and surplus rollovers from a previous year, which absorbs some of the unpredictability in Amtrak costs, but if there were more predictability from Amtrak, the State could be more aggressive with their funding.[63]

The LOSSAN Agency has directly experienced granularity and transparency issues in Amtrak's cost accounting. DeMartino recounted that she had previously requested cost details from Amtrak for Pacific Surfliner baggage service showing the number and location of luggage collected, but Amtrak was unable to provide the information because their accounting and reporting system could not accommodate this level of granularity.[64] In addition, DeMartino stated that Amtrak is not transparent with what they charge for use of their equipment.[65] She opined that the Amtrak equipment is old and not well-cared for, but Amtrak charges the State millions of dollars to lease their equipment, and the State pays all the costs to maintain it.[66] Amtrak takes equipment out of state for major overhauls and is required to return the equipment in 50 days, but the LOSSAN Agency has seen equipment out of service for over 100 days and is returned in subpar conditions, which becomes a detriment to trying to recover ridership lost during the COVID-19 pandemic.[67]

In addition to issues with Amtrak's cost accounting, LOSSAN Agency staff describe Amtrak's operating costs as being too high. Bergener described that the managing agencies have no control over what drives Amtrak's operations costs even though they are responsible for paying 100 percent of it and that the costs have not kept pace with inflation and have increased beyond the consumer price index (CPI).[68] She continued that state partners do not participate in or control such things as Amtrak's collective bargaining agreements, which is a substantial part of the costs to the state partners, the way that Amtrak chooses to maintain equipment, or whom Amtrak selects to provide onboard Wi Fi.[69] She also remarked that Amtrak's unwillingness or inability to conduct hard negotiations with the labor unions added to the cost burden passed on to the state partners, bearing in mind that the unions are powerful and huge.[70]

DeMartino and Edison described Amtrak's capital costs as being high as well. DeMartino thinks the LOSSAN Agency is getting charged too much for capital equipment and described how the LOSSAN Agency reduced their fleet size to align with reduced service caused by the COVID-19 pandemic, but the mechanical cost to maintain the equipment was as high or higher than the cost to maintain their entire fleet.[71] Edison commented that Amtrak has not reviewed its capital budget and detailed each capital asset in which they have invested or that is used by an Amtrak service to determine a portion to allocate to the state partners based on usage.[72] Instead, Amtrak offers a cash-based charge for the equipment they own.[73]

Challenging Working Relationships

As stated earlier, the relationship between Amtrak and the states in which they operate services is heavily influenced by how these different entities share costs. While the LOSSAN Agency and the State of California agree with paying the entirety of the operating and capital costs, the issues with the cost accounting as described in the previous section has resulted in challenging relationships between them and Amtrak. Bergener believes that Amtrak had more of a voice when the state partners and Amtrak shared costs to operate intercity routes prior to PRIIA Section 209.[74] After PRIIA Section 209, the state partners began to dictate goals and needs for their Amtrak routes, with which Amtrak was not always in agreement.[75]

The relationship dynamic between the state partners and Amtrak changed with the implementation of PRIIA Section 209 as both sides continue to vie for control. The state partners see themselves as being in charge of their intercity routes and Amtrak as the contractor supporting the operations of the services, which has built resentment between the two.[76] DeMartino is of the opinion that Amtrak should function as a contractor to the state partners considering they make no operational investment in intercity services.[77] Amtrak requires that their name be prominent on the side of intercity trains, whereas DeMartino would prefer to use only the Pacific Surfliner name with Amtrak's name as a subscript.[78] She explained that intercity routes are in survival mode since the COVID-19 pandemic service reductions, so the state partners' primary focus is on recovery.[79] She remarked that Amtrak currently has a bold plan to expand service nationally, which is out of sync with state expansion plans included in the State Rail Plans required by PRIIA.[80]

Conflicts between how Amtrak and the state partners manage their respective businesses impacts the working relationships as well. DeMartino remarked that she does not think negatively of Amtrak, but that their lack of responsiveness and "take it or leave it" attitude toward their costs has made the relationship with the state partners challenging.[81] Additionally, she described that Amtrak made a unilateral decision not to accept cash during COVID-19 at the objection of the LOSSAN Agency.[82] This became detrimental to the Pacific Surfliner service because California has a high unbanked population and requires that transit accept cash payments.[83] Regardless, Amtrak was unwilling to restore cash payments on the Pacific Surfliner service.[84] DeMartino suggested using the café car attendant to process cash fare transactions since they are set up to accommodate cash payments already, but Amtrak did not agree to the solution.[85]

A Path Forward to Better Collaboration

The interviewees consider a multifaceted approach to best maintain successful operation of the Pacific Surfliner within the confines of the PRIIA Section 209, which includes two main actions – rebuilding the relationship between Amtrak and the state partners and investing in Amtrak's accounting and asset management systems. Bergener remarked that it is vital for the state partners and other managing agencies to build relationships with each other and with Amtrak to ensure they can advocate for the services they administer.[86]

Challenging Amtrak's invoices was identified as a reasonable tactic to force changes to PRIIA Section 209. Galloway believes the best way the state partners can get changes made to PRIIA Section 209 is by requesting details of the invoices submitted by Amtrak and holding reimbursement payment until the information is provided.[87] He named David Kutrosky, Managing Director for CCJPA (Amtrak Capital Corridor service) and Patricia Quinn, Executive Director for Northern New England Passenger Rail Authority (Amtrak Downeaster service) as essential figures in helping to bring clarity to the Section 209 cost methodology policy through questioning Amtrak's invoices for their services.[88] Jewell noted that the three California intercity service managing agencies have been disputing the marketing additive Amtrak includes in their invoices for over a year.[89] The dispute is due to being charged for certain marketing functions that Amtrak eliminated to support the marketing efforts locally.[90] Edison noted the downside to this tactic is that it costs staff time for each investigation of Amtrak's invoices.[91]

Although some interviewees recommend working through SAIPRC to enact change to the PRIIA Section 209, other interviewees felt that SAIPRC is not effective enough to influence actual changes. DeMartino opined that the SAIPRC group and its Section 209 working group are not as effective as they are being touted and thinks the state partners need to show a united front to change the cost methodology policy.[92] She relayed that even with the collective voice of the LOSSAN Agency, the CCJPA, the SJJPA, and the State of California, it has still been difficult to approach legislators regarding problems with the cost methodology policy.[93] Jewell believes that SAIPRC has been receptive to discussing and adjusting the cost methodology policy and stated that SAIPRC is fundamentally a resource for the state partners who have to use their own staff time to participate.[94] Amtrak does not necessarily do the same but is the ultimate decision-maker.[95] Edison remarked similarly by stating that SAIPRC only functions well if there is a willingness to prioritize an issue and pressure to get to a resolution by a specific date.[96]

The LOSSAN Agency and the State participate in SAIPRC to propose and advocate for changes to PRIIA Section 209. Jewell described successfully working with the cost methodology policy subcommittee of SAIPRC to come up with some short-term, stopgap solutions to help mitigate costs shifting from long distance to the state-supported intercity routes due to Amtrak's cuts to their national long-distance service.[97] Jewell also developed a database portal with the help of SAIPRC staff, that the state partners can use to query costing information within the last year.[98] He believes this portal is a step in the right direction to assist the state partners in drilling down into the PRIIA Section 209 costs.[99] Edison described providing input to SAIPRC, which they are now using to develop a more direct costing method for all of the routes.[100]

If Amtrak is unwilling or unable to provide adequate resources to fully engage with SAIPRC and help enact changes to PRIIA Section 209, the STB needs to step in to assist. Per 49 US Code 24905(c), the STB is authorized to "resolve, or assist in resolving, certain types of disputes arising under the Cost Methodology Policy for State Supported Services operated by Amtrak in partnership with states that was developed pursuant to Section 209 of PRIIA."[101] Echoing this recommendation, Thomas Cornillie recommends funding the STB to hire enough staff to oversee Amtrak's engagement with the state partners in Amtrak After PRIIA – New opportunities for continuing the revitalization of intercity passenger rail.[102] The STB recently established an in-house passenger rail group to monitor Amtrak's on-time performance, which could potentially function to oversee Amtrak's participation in SAIPRC as well.[103] If this group cannot dually function, then the STB should implement Cornillie's recommendation to add staff solely to support Amtrak's participation in SAIPRC.

In addition to better collaboration, interviewees agree that Amtrak needs a new accounting system to make PRIIA Section 209 function better. Galloway believes that the cost methodology policy is valid but has room for improvement. He prefers a build-up model for cost accounting that breaks down actual costs and then applies them.[104] Edison suggested that Amtrak needs to build a system that ties back to their general ledger and how Amtrak manages their business.[105] Bergener believes that Amtrak's accounting system is technology-constrained and that a company of their size and complexity should budget for and request funding from Congress for an enterprise asset management system that allows them to allocate costs appropriately.[106]

A new accounting system that ties costs directly to a route was also suggested. DeMartino remarked that the LOSSAN Agency needs to determine the cost of a roundtrip to plan for service changes in the near-, mid-, and long-term.[107] She wants to know the actual costs associated with services like onboard service crews, station attendants, and baggage handling so that the LOSSAN Agency can "pull a level" and cut a specific service in order to keep as many trains running as possible.[108] Jewell noted that the LOSSAN Agency is pushing for a new, more direct costing method for all of the routes with a negotiated amount determined for costs of shared crews and facilities as part of the reauthorization legislation to update PRIIA Section 209.[109]

If Amtrak does not invest in modernizing its asset management and accounting systems, another option may be to make its data accessible to the public. This option could help solve Amtrak's issues with transparency if they cannot do so through investing in their accounting and asset management systems. Cornillie recommends Amtrak's operations data, including revenue and ridership, be defined as "US Government Works," making it free for the public to access.[110] This seems like a reasonable recommendation considering the US Supreme Court ruled in 2015 that Amtrak is not a private company but rather is a governmental entity.[111] If Amtrak cannot be transparent by tying direct route costs to a cost methodology policy for the state partners, they should provide access to its data to allow the state partners to review and use it for their own planning purposes.

Allowing the State to control its own equipment was identified as being critical to successfully continue operation of the Pacific Surfliner within the confines of PRIIA Section 209. DeMartino thinks the LOSSAN Agency and State of California should own their equipment by either working out an equitable transfer with Amtrak for the equipment they currently own, or by competitively procuring new equipment.[112] She remarked that this would allow the LOSSAN Agency and State of California to directly reap the benefits of the investment in their own equipment and allow for flexibility to share the equipment between the three California intercity routes.[113] Unfortunately, Amtrak does not want to transfer the equipment to the State of California.[114] DeMartino stated that public agencies are typically required to competitively procure assets like rolling stock and go with the lowest bid, whereas Amtrak procures their own equipment and charges the state partners to use it.[115] She believes Amtrak should be held accountable to compete with other vendors for the opportunity to provide equipment at the lowest cost.[116]

6. Summary & Conclusion

Improving PRIIA Section 209 per the recommendations herein will benefit Amtrak and the state partners, thus improving it for the Pacific Surfliner. The Pacific Surfliner is part of California's identity and has been fortunate to have State support, ensuring it survives through times of financial uncertainty. This State support safeguarded the Pacific Surfliner from substantial impacts created by PRIIA Section 209. The goal of the Section 209 legislation to allocate operating costs to the state partners was reasonable, but its implementation was plagued with cost predictability, granularity, and transparency issues.

The national service reductions resulting from the COVID-19 pandemic revealed flaws in the cost methodology policy and forced Amtrak and the state partners to look at short-term and long-term solutions that benefit all parties. This event brought the parties together to combat a common challenge. Amtrak's General and Legislative Annual Report & Fiscal Year 2021 Grant Request and their Service

Line Plans for FY 2021-25 indicate Amtrak's goals of collaborating with the state partners, showing a new willingness to be a better partner. Within the 2021 grant request, Amtrak also proposes federal support of new or expanded intercity service for the first five years, showing solidarity with the state partners considering revenue shortfalls from the COVID-19 service reductions.

The influx of funding for Amtrak through President Biden's Bipartisan Infrastructure Law could provide the financial lifeline Amtrak needs to improve PRIIA Section 209 as well. The Bipartisan Infrastructure Law identifies $66 billion specifically for transit and rail, which could be used, in part, to implement Amtrak's plan to financially support the first five years of new or expanded intercity service, support additional Amtrak staffing to participate in SAIPRC, and finally invest in their accounting and asset management systems. Amtrak needs to create an implementation plan that includes action items and identifies the funding necessary to modernize their business practices and participate in the high level of stakeholder engagement needed.

Endnotes

1. *Intercity = Amtrak routes of less than 750 miles. Also referred to as "short-distance" routes. State partners = the collective group of managing agencies for each Amtrak intercity service.*

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