

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: August 4-5, 2004

Reference No.: 2.6g.
Action Item

From: ROBERT L. GARCIA
Chief Financial Officer

Prepared by: Bimla G. Rhinehart
Acting Chief
Division of Budgets

Ref: **FINANCIAL ALLOCATION FOR PUBLIC TRANSPORTATION ACCOUNT (PTA)
FUNDS TO THE DEPARTMENT FOR INTERCITY RAIL AND FEEDER BUS
SERVICES**

RECOMMENDATION

The Department of Transportation (Department) recommends the California Transportation Commission (Commission) approve Resolution MFP-04-01, allocating \$49,552,000 of Public Transportation Account (PTA) funds, contingent upon the approval of the state fiscal year (FY) 2004-05 Budget, for support of Department intercity rail and feeder bus services on the Pacific Surfliner and San Joaquin routes.

PROJECT DESCRIPTION

RECIPIENT: Department of Transportation

FUNDED ACTIVITY: Department intercity passenger rail and feeder bus services with Amtrak. \$49,552,000 from the PTA will support the costs of Amtrak contracted service on the two State administered intercity rail routes as follows:

- \$20,949,400 for the Pacific Surfliner Route (11 San Diego-Los Angeles weekday round-trips, 12 San Diego-Los Angeles weekend round-trips, and four Los Angeles-Santa Barbara daily round-trips with one of these trains continuing to San Luis Obispo, and an additional Los Angeles-Santa Barbara/Goleta weekend round-trip). Funding is also to operate the additional Los Angeles to San Luis Obispo daily round-trip planned to start later in 2004.
- \$28,602,600 for the San Joaquin Route (four Bakersfield–Stockton-Oakland daily round-trips, and two Bakersfield-Stockton-Sacramento daily round-trips).

CURRENT STATUS OF AMTRAK

Amtrak's financial status and future have stabilized considerably since May 2002. Amtrak's operations and capital expenditures for Federal Fiscal Year (FFY) 2004 were funded in the Consolidated Appropriations Act FFY 2004 at a level of \$1.225 billion. Although this amount is less than the original \$1.8 billion requested by Amtrak, Amtrak asserts that the appropriation level is adequate for operations but will not provide enough funding to complete the rebuilding of its physical plant and equipment planned for FFY 2004 in their five-year strategic plan. For FFY 2005, Amtrak is requesting a \$1.798 billion appropriation level. The Administration's proposed budget includes \$900 million for Amtrak, but the President's Budget Message states that it will support as much as \$1.4 billion if requested reforms are enacted.

On June 29, 2004, Amtrak released the update to their five-year strategic plan. This update now includes two new components, one concerning state-initiated corridors and one concerning the national freight network. The plan recommends a federal capital matching program for both the corridor and freight systems. Amtrak states it is "... making steady progress on the existing system to achieve its state-of-good-repair objectives and is continuing to control operating expenses."

In order to be prepared for any change in Amtrak's status and to evaluate the cost-effectiveness of the current Amtrak contract, the Department contracted with R.L. Banks & Associates, Inc. for the "Intercity Passenger Rail Service Options Study." The study examines the costs and benefits of contracting out intercity rail services assuming Amtrak remains in its current form. The draft study is under review, and the final report will be issued soon. The information and recommendations obtained from this study will assist the Department in continuing intercity rail services and protecting the State's investment in intercity rail regardless of Amtrak's status.

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

Because the Commission does not allocate funds to the Capitol Corridor, this Route is not covered in detail in this document. However, data is provided for FFY 2004-05 on costs and revenues and the appropriation level for the Capitol Corridor and for farebox ratios from FFY 2002-03 through FFY 2004-05 on the three State funded intercity rail routes. Additionally, every three months, the Department provides the Commission data and analysis comparing actual ridership, costs, revenues and farebox ratio on all three intercity routes. (See reference #3.7)

INTERCITY RAIL APPROPRIATION IN THE FY 2004-05 PROPOSED BUDGET ACT

Provision 1 of Item 2660-001-0046 of the Proposed FY 2004-05 Budget appropriates \$73,138,000 in PTA funds for intercity rail services. (The amounts for each route are not specified in the Proposed 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 \$73.1 million is distributed between the three routes.

Proposed FY 2004-05 Budget Appropriation (Item 2660-001-0046) For Intercity Rail Services	
ROUTE	FUNDS
Pacific Surfliner	\$20,949,400
San Joaquin	\$28,602,600
Appropriation Request	\$49,552,000
Capitol Corridor	\$23,586,000
Budget Total	\$73,138,000

ALLOCATION AMOUNT**Pacific Surfliner and San Joaquin Routes**

The Department is requesting an allocation of \$49,552,000, contingent upon the passage of the FY 2004-05 Budget Act, for the Pacific Surfliner and San Joaquin routes. This allocation request will fund service on those two routes for FFY 2005 (October 2004 – September 2005). The table on the following page compares the funds requested for FFY 2004-05 to those allocated for FFY 2003-04 as well as actual expenditures for FFY 2002-03.

The Department plans to add an additional round-trip on the Pacific Surfliner Route from Los Angeles to San Luis Obispo later in 2004. This train can be added within the existing budget, thereby providing more train service without any increase in budgeted resources. This same approach was used by the CCJPA in prior years when additional service was added on the Capitol Corridor within their existing budget.

Trends in State Costs

As can be seen from the table on the following page, combined State costs in FFY 2004-05 for anticipated services on the San Joaquin and Pacific Surfliner routes are projected to be \$49,552,000, the same amount as in FFY 2002-03 and 2003-04. A period of three years of stability in State costs is a very positive trend and is unprecedented in the history of State-supported intercity rail service. In addition, Amtrak projects that State costs for the same level of service will not increase for another two years, assuming continuation of current positive ridership and revenue trends. There is a slight decrease in costs in FFY 2004-05 on the Pacific Surfliner Route (even with the planned addition of a new Los Angeles – San Luis Obispo round-trip) and a slight increase in costs on the San Joaquin Route. FFY 2004-05 costs of \$23,586,000 for service on the Capitol Corridor are also the same as in FFY 2003-04.

FFY 2002-03 through 2004-05 (Pacific Surfliner and San Joaquin Routes) State Costs for State Administered Intercity Rail Operations (\$ in thousands)			
ROUTE	FFY 2002-03 (Actual)	FFY 2003-04 (Allocation)	FFY 2004-05 (Current request)
Pacific Surfliner	\$21,591	\$21,167	\$20,949
San Joaquin	\$27,961	\$28,385	\$28,603
TOTALS	\$49,552	\$49,552	\$49,552

Allocation Transfer Between Routes

The Commission has recognized in its allocation resolutions from 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 State-administered routes (San Joaquin and Pacific Surfliner) up to ten percent of the amount allocated to each route, based upon actual expenditures.

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 passenger 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 \$138.5 million and minor capital costs of \$975,000. Subtracting passenger revenue of \$66.3 million, results in State support of \$73.1 million. The composite farebox ratio for the three State-supported routes is projected at 48 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 Capitol Corridor is projected at 41 percent, the Pacific Surfliner Route at 57 percent, and the San Joaquin Route at 45 percent.

FFY 2004-05 State-Supported Intercity Rail Routes Financial Performance (\$ in thousands)					
ROUTE	TOTAL EXPENSES	PASSENGER REVENUES	MINOR CAPITAL **	NET LOSS (STATE SUPPORT)	FAREBOX RATIO**
Pacific Surfliner *	\$48,342	\$27,718	\$325	\$20,949	57%
San Joaquin	\$50,931	\$22,653	\$325	\$28,603	45%
Capitol Corridor	\$39,197	\$15,936	\$325	\$23,586	41%
TOTALS	\$138,470	\$66,307	\$975	\$73,138	48%

* Excludes Amtrak 33 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 2002-03 through FFY 2004-05. For the Pacific Surfliner and the San Joaquin routes combined, the estimated farebox recovery ratio for FFY 2004-05 is one percent higher than the actual farebox recovery ratio for year-to-date FFY 2003-04 (October 2003 – March 2004). For the Capitol Corridor, the estimated farebox recovery ratio for FFY 2004-05 is projected to be five percent higher than in FFY 2003-04.

FFY 2002-03 through 2004-05 Farebox Ratios			
ROUTE	FAREBOX RATIO		
	FFY 2002-03 (Actual)	FFY 2003-04 (Actual Oct.-March)	FFY 2004-05 (Budget)
Pacific Surfliner	53%	54%	57%
San Joaquin	39%	45%	45%
Capitol Corridor	36%	36%	41%
TOTALS	43%	45%	48%

ALLOCATIONS IN FY 2005-06 AND BEYOND

The Department and Amtrak's ten-year vision for the Pacific Surfliner Route is hourly service between Los Angeles and San Diego. The Department's current projections for increases in service include an additional round-trip from Los Angeles to San Luis Obispo to start later in 2004, as discussed above. Also one additional round-trip from San Diego to Los Angeles is projected to start in FFY 2007-08. The Department's current projections for the San Joaquin Route include no additional train frequencies in the near future.

CALIFORNIA TRANSPORTATION COMMISSION

Commission Allocation Approval Federal Fiscal Year (FFY) 2004-05 Amtrak (Intercity Rail) Operating Support

Resolution MFP-04-01

- 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 2004-05 appropriates \$73,138,000 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 (BT & H) Agency shall allocate intercity rail operating funds to those intercity rail routes administered by a local joint powers board. As of 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, \$23,586,000 in budget funds are reserved for the Capitol Corridor, and the remaining \$49,552,000 in budget funds are reserved for the San Joaquin and Pacific Surfliner routes (including an additional Los Angeles to San Luis Obispo round-trip planned to begin later in 2004); and
- 1.5 WHEREAS, for the three state-supported intercity routes, Amtrak projects total operating expenses of \$139.4 million including minor capital costs. Subtracting passenger revenue of \$66.3 million, results in State support of \$73.1 million. The composite farebox ratio for the three state administered routes is projected at 48 percent (revenues/total operating expense), while the farebox ratio for the Capitol Corridor is projected at 41 percent; the Pacific Surfliner Route at 57 percent and the San Joaquin Route at 45 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 and will report these changes to the Commission on a quarterly basis; 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 \$49,552,000 be allocated to the Department for intercity rail and feeder bus services with Amtrak as follows:

Pacific Surfliner Route	\$20,949,000
<u>San Joaquin Route</u>	<u>\$28,603,000</u>
TOTAL	\$49,552,000

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,

2.3 BE IT FURTHER RESOLVED, that the Department will report these changes to the Commission on a quarterly basis. Changes above ten percent must be approved by the Commission prior to expenditure.