

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: September 19-20, 2007

Reference No.: 2.6f.  
Action Item

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Subject: **FINANCIAL ALLOCATION FOR PUBLIC TRANSPORTATION ACCOUNT (PTA)  
FUNDS FOR FY 2007-08 FOR INTERCITY RAIL AND FEEDER BUS SERVICES  
RESOLUTION MFP-07-08**

## **RECOMMENDATION:**

The Department of Transportation (Department) recommends the California Transportation Commission (Commission) approve the attached resolution allocating \$55,538,646 of Public Transportation Account (PTA) funds for support of the Department's intercity rail and feeder bus services on the Pacific Surfliner and San Joaquin routes for FY 2007-08.

## **PROJECT DESCRIPTION:**

**RECIPIENT:** Department of Transportation

**FUNDED ACTIVITY:** Department intercity passenger rail and feeder bus services with Amtrak. \$55,538,646 from the PTA will support the costs of Amtrak contracted service on the two State administered intercity rail routes in FY 2007-08 as follows:

- \$23,073,808 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).
- \$32,464,838 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.

Inasmuch as 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 2007-08 on costs and revenues and the appropriation level for the Capitol Corridor and for farebox ratios from Federal Fiscal Year (FFY) 2005-06 through FFY 2007-08 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 FY 2007-08 BUDGET ACT**

Provision 1 of Item 2660-001-0046 of the FY 2007-08 Budget Act appropriates \$79,690,027 in PTA funds for intercity rail services. The amounts for each route, however, 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 \$79.7 million is distributed among the three routes.

<b>FY 2007-08 Budget Appropriation (Item 2660-001-0046) For State-Supported Intercity Rail Routes</b>	
<b>ROUTE</b>	<b>PTA FUNDS</b>
Pacific Surfliner	\$23,073,808
San Joaquin	\$32,464,838
<b>Allocation Request</b>	<b>\$55,538,646</b>
Capitol Corridor	\$24,151,381
<b>Budget Total</b>	<b>\$79,690,027</b>

### **ALLOCATION AMOUNT**

#### **Pacific Surfliner and San Joaquin Routes**

The Department is requesting an allocation of \$55,538,646 for the Pacific Surfliner and San Joaquin routes. This allocation request will fund service on the two routes for FFY 2007-08 (October 2007 – September 2008). The table on the following page compares the funds requested for FFY 2007-08 to those allocated for FFY 2006-07, as well as actual state cost for FFY 2005-06.

**Trends in State Costs**

As reflected in the table below, combined State costs in FFY 2007-08 for anticipated services on the San Joaquin and Pacific Surfliner routes are projected to be \$55,538,646. This is an increase of \$5,854,651 over the previous year. This is the first time since FY 2002-03 that Amtrak has increased costs (even with increases in service levels during this period on two of the three routes - Pacific Surfliner and Capitol Corridor). During this period of stable State costs, Amtrak absorbed increased expenditures without passing costs on to the State. Also, the Department was able to offset higher expenses through revenue from increased fares and ridership. However, Amtrak can no longer operate California State-supported intercity passenger rail and feeder bus services without increasing the costs charged to the State.

The increased operating costs are primarily related to dramatic increases in fuel costs, labor costs, and general inflation. For example, between FFY 2004-05 and FFY 2005-06 fuel costs on the San Joaquin and Pacific Surfliner routes increased \$4.1 million (62 percent), from \$6.8 million to \$10.9 million. Capitol Corridor costs increased by \$1.7 million during the same period. High fuel costs are projected to continue through FFY 2007-08. Also, Amtrak is in the process of signing new labor agreements that will increase labor expenses. The cost increase on the San Joaquin trains is projected to be more than on the Pacific Surfliner trains because ridership on the San Joaquin is flat, while Pacific Surfliner ridership is increasing. Thus increased revenue on the Pacific Surfliner trains offset increased expenses.

<b>FFY 2005-06 – 2007-08</b>			
<b>State Costs for State Supported Intercity Rail Routes</b>			
<b>(\$ in thousands)</b>			
<b>ROUTE</b>	<b>FFY 2005-06 (Allocation)</b>	<b>FFY 2006-07 (Allocation)</b>	<b>FFY 2007-08 (Current request)</b>
Pacific Surfliner	\$20,165	\$22,150	\$23,074
San Joaquin	\$29,387	\$27,402	\$32,465
<b>State-Administered Routes -Totals</b>	<b>\$49,552</b>	<b>\$49,552</b>	<b>\$55,539</b>
Capitol Corridor	\$23,586	\$23,586	\$24,151
<b>All Routes - Totals</b>	<b>\$73,138</b>	<b>\$73,138</b>	<b>\$79,690</b>

**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 Department will report these changes, if any, to the Commission in the quarterly report. The Commission must approve changes above ten percent prior to expenditure.

**FINANCIAL PERFORMANCE OF ROUTES**

The table below 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 \$164.06 million and minor capital costs of \$1.35 million. Subtracting passenger revenue of \$85.72 million results in State support of \$79.69 million. The composite farebox ratio for the three State-supported routes is projected at 52 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 61 percent, the San Joaquin Route at 48 percent, and the Capitol Corridor at 47 percent.

<b>FFY 2007-08 State-Supported Intercity Rail Routes Projected Financial Performance (\$ in thousands)</b>					
<b>ROUTE</b>	<b>TOTAL EXPENSES</b>	<b>PASSENGER REVENUES</b>	<b>MINOR CAPITAL EXPENSES**</b>	<b>NET LOSS (STATE SUPPORT)</b>	<b>FAREBOX RATIO**</b>
Pacific Surfliner *	\$58,688	\$36,064	\$450	\$23,074	61%
San Joaquin	\$61,025	\$29,010	\$450	\$32,465	48%
Capitol Corridor	\$44,351	\$20,650	\$450	\$24,151	47%
<b>Totals</b>	<b>\$164,064</b>	<b>\$85,724</b>	<b>\$1,350</b>	<b>\$79,690</b>	<b>52%</b>

\* 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 2005-06 through FFY 2007-08. For the Pacific Surfliner and the San Joaquin routes combined, the estimated farebox ratio for FFY 2007-08 is projected to be five percent higher than the actual farebox recovery ratio for year-to-date FFY 2006-07 (October 2006 – May 2007). For the Capitol Corridor, the estimated farebox recovery ratio for FFY 2007-08 is projected to be six percent higher than in year-to-date FFY 2006-07. Note that the FFY 2006-07 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.

<b>FFY 2005-06 – 2007-08 State-Supported Intercity Rail Routes Farebox Ratios</b>			
<b>ROUTE</b>	<b>FAREBOX RATIO</b>		
	<b>FFY 2005-06 (Actual)</b>	<b>FFY 2006-07 (Actual Oct-May)</b>	<b>FFY 2007-08 (Budget)</b>
Pacific Surfliner	52%	57%	61%
San Joaquin	45%	42%	48%
Capitol Corridor	40%	41%	47%
<b>Totals</b>	<b>47%</b>	<b>47%</b>	<b>52%</b>

**FUNDING OUTLOOK FOR FY 2007-08 AND BEYOND**

As discussed above, FFY 2007-08 is the first year since FFY 2002-03 that Amtrak has increased state costs for all intercity rail services. These cost increases may not fully cover the expense increases Amtrak has absorbed over the past few years, particularly for fuel. Thus, Amtrak may request additional cost increases in future years.

In addition, Amtrak's April 2005 "Strategic Reform Initiatives and FY 06 Grant Request" stated: "States will transition to covering fully-allocated operation losses (excluding interest and depreciation), plus an equipment capital charge, on all short distance corridor trains over a four year period starting in Fiscal Year (FY) 2008 and completed by FY 2011." In January 2006, the Amtrak Board stated that they would like to see the implementation of this initiative go forward. However, Amtrak did not begin implementing this policy in FFY 2007-08, but still intends to implement the policy in the future.

The Department's ten year vision as presented in the *2005-06 –2015-16 California State Rail Plan* for the Pacific Surfliner Route is hourly service (13 round-trips) between Los Angeles and San Diego, with one additional round-trip from San Diego to Los Angeles to start in FY 2009-10. 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 FY 2010-11. Additional funds for operating costs will be needed to support these additional frequencies.

Attachment

## **CALIFORNIA TRANSPORTATION COMMISSION**

### **Commission Allocation Approval Federal Fiscal Year (FFY) 2007-08 Amtrak (Intercity Rail) Operating Support**

#### **Resolution MFP-07-08**

- 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 Budget Act of 2007-08 appropriates \$79,690,027 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. 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, \$24,151,381 in budget funds are reserved for the Capitol Corridor, and the remaining \$55,538,646 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 \$165.4 million. Subtracting passenger revenue of \$85.7 million, results in State support of \$79.7 million. The composite farebox ratio for the three State-administered routes is projected at 52 percent (revenues/total operating expense), while the farebox ratio for the Pacific Surfliner Route is projected at 61 percent, the San Joaquin Route at 48 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 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 \$55,538,646 be allocated to the Department for intercity rail and feeder bus services with Amtrak as follows:

Pacific Surfliner Route	\$23,073,808
<u>San Joaquin Route</u>	<u>\$32,464,838</u>
<b>TOTAL</b>	<b>\$55,538,646</b>

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, 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.

