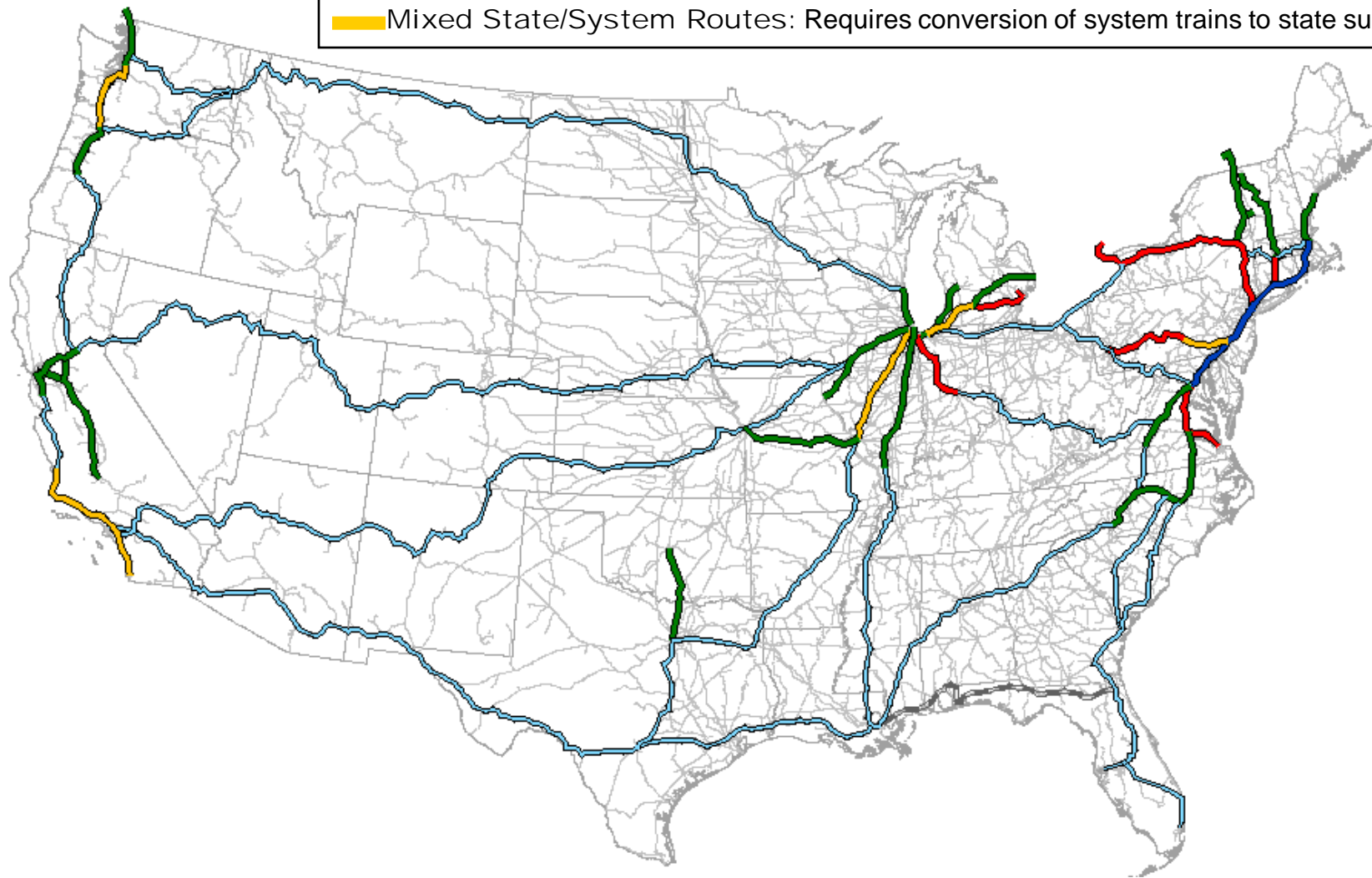

Amtrak State-Supported Routes

October 7, 2011

Amtrak Corridor Services

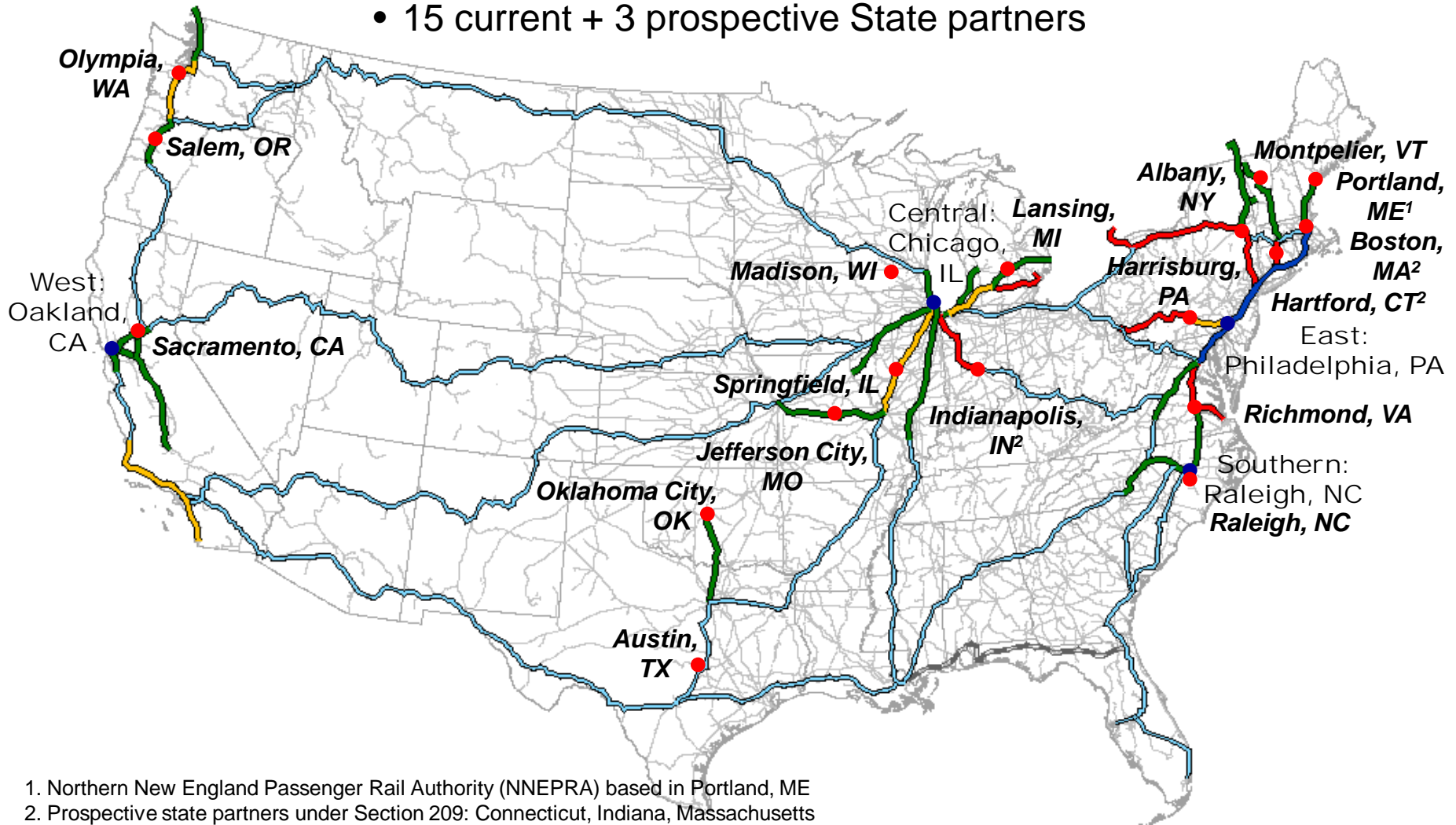
- NEC Spine: Excluded from Section 209
- State Supported Routes: Require consistent agreements under Section 209
- System Corridor Routes: Require new agreements, no state support in place
- Mixed State/System Routes: Requires conversion of system trains to state support



Amtrak Policy & Development Regions

- Amtrak Policy & Development Regional Offices
- *State Partner Capitals, Agency/DOT Offices*

• 15 current + 3 prospective State partners



1. Northern New England Passenger Rail Authority (NNEPRA) based in Portland, ME
2. Prospective state partners under Section 209: Connecticut, Indiana, Massachusetts

Multiple Functions Handled at Regional Level

- **Facets of contract administration**

- Develop pricing
- Negotiate contractual agreements with state partners
- Serve as a state's internal representative within Amtrak for matters of service delivery and performance – state's agent in seeing that contract provisions are upheld

- **Service partnership and account management**

- Regular reporting, discussion of route performance and ways to improve
 - On-time performance, customer satisfaction, financial performance, etc.
- Contact with multiple stakeholders
 - Local governments; economic development groups; tourism groups; non-profit and advocacy groups, etc.

- **Service development**

- Propose and develop changes and additions to service in partnership with State DOT/Agency
- West: 2009 additional frequency to Vancouver, BC
- Central: 2006 doubling of Illinois service
- East: Current expansion of Downeaster to Brunswick
- Southern: 2009 introduction of Lynchburg service; currently developing service extension to Norfolk

Calculating State Support Requirements

- Historically determined as $\text{State Subsidy} = \text{Direct Costs} + \text{Some Shared Costs} - \text{Passenger Revenue}$
 - States can request the level of service and amenities they desire
 - Number of daily frequencies, desired station stops, availability of food and beverage service
 - Lower ticket prices and unreserved service to encourage riders; higher ticket prices and yield management to minimize state support
 - These decisions dictate the necessary subsidy level
- In Section 209 proposal, State costs simplified into $\text{Route Costs} + \text{Additives}$
 - Route Costs: Costs that States can “see and touch” on their routes or are otherwise directly attributed to routes
 - Additives: Replaces many shared costs with consistent overhead-type rates for support costs necessary for service but not visible to States

PRIIA Section 209 Overview

- Requirements

- Single, nationwide cost methodology for State-supported services covering all routes less than 750 miles other than the NEC spine
- Collaborative agreement between Amtrak and States
- Methodology to incorporate establishment of operating costs to be shared and capital charge for Amtrak-owned assets used in State-supported service
- Fully implemented by October 16, 2013

- Challenges

- Maximizing State support of Amtrak Corridor services without forcing service cuts
- Tailoring one policy for many different operating environments
- Crafting a policy to support desired outcomes (more State support & more State-supported services)
- Responding to States' current economic environment and budget difficulties
- Achieving consensus and agreement between States and Board of Directors
- Building Amtrak and State processes, systems, and capacity to support the use of a new 209 method

Clarifying the State/Federal Partnership

- Federal government supports:
 - Long distance network, for a base level of nationwide connectivity
 - Capital investments in system-wide systems, equipment and infrastructure
 - Computer/financial systems, shops, etc. for long distance and corridor service
 - NEC Spine SOGR and Acela/Regional capital and operating expenses.
- State governments support:
 - Short-distance Amtrak corridor service primarily benefiting an individual state or region:
 - Services levels and routings controlled by states and based on State Rail Plans
 - States fund portion of operating and capital costs
- Federal government additionally supports States:
 - Amtrak's incremental cost access rights and dispatching priority on host railroads
 - Sec 209 and Sec 301 (Capital Assistance) allow states to use PRIIA capital funding for host railroad capital payments and Amtrak capital charge

The “Deal” - Additive Policy Proposal

- State Working Group and Amtrak final policy:
 - Divide costs into Third Party, Route and Other Costs
 - Third Party (Host RR, fuel)
 - Route Costs – direct and shared costs that are clearly route-related and understandable from a state-perspective.
 - Other Costs: replace traditional “shared costs” that capture system expenses that are allocated to the services with Additives expressed as percentages of selected route cost categories
 - Crew labor, Mechanical, On Board Service, National Marketing, Police/Security, General & Administrative
 - States pay:
 - 100% of Third Party
 - 100% of Route Costs,
 - Additives costs, equal to about 65% of fully-allocated shared costs.
 - States are credited:
 - Farebox and miscellaneous revenues
 - A per passenger mile split of NEC through-revenues for state-supported routes that use the NEC, or credit for NEC revenue on through trains above Amtrak’s fully-allocated NEC costs per seat mile
 - Revenue and service fee risk is negotiated by contract

Benefits

- Simple and understandable
- Transparent – based on USDOT-sponsored Amtrak Performance Tracking (APT) system
- Fair and defensible
- Clear policy to guide new entrants
- Evolutionary
- Allows for proper allocation of risks
- Additive approach insulates states from big swings in shared costs and provides an incentive to Amtrak to manage those costs
- Allows States to “pick and choose” Amtrak services in order to control route costs
- Reduces Amtrak subsidy to State-supported routes by 10% and increases state capital contributions by <\$60 million annually, allowing Amtrak to continue operations within PRIIA-authorized funding levels

Pro Forma State Payments Reflecting Policy Revisions

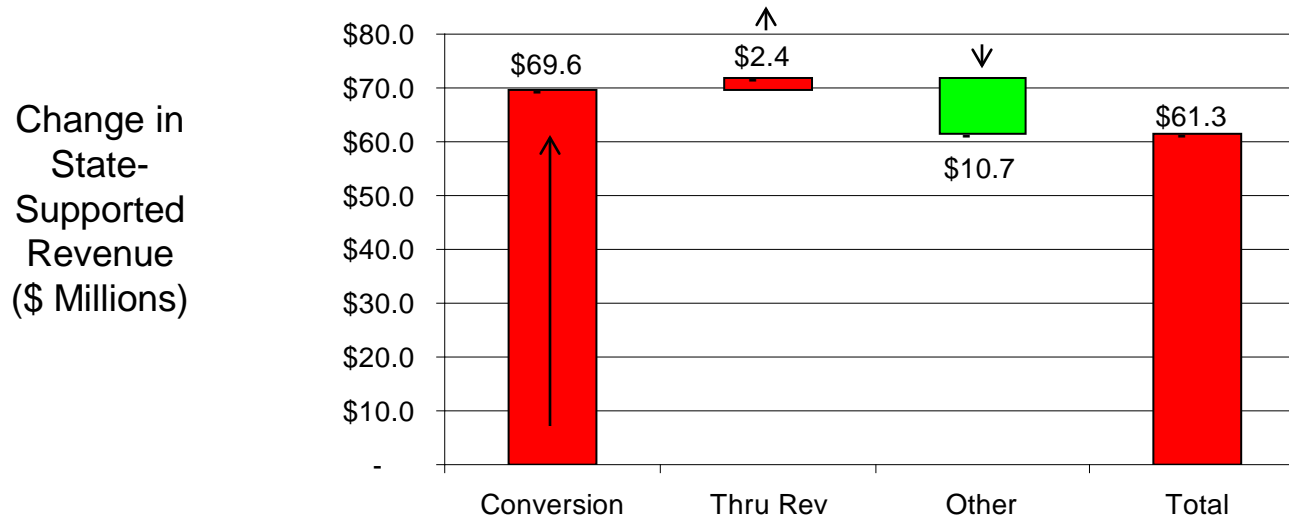
Summary of SWG/Amtrak Proposed Operating and Capital Payments Pro Forma Results for FY11

(\$ millions)	FY10 Budget	Operating Proposal	+	Proposed Capital Overhauls	+	Proposed Fixed Asset Capital Charge	=	Proposed Total State Support	Proposed Total vs. FY10 Budget Higher(Lower)	
									\$	%
Vermont	\$ 4.9	\$ 8.0	¹	\$ 1.6		tbd		\$ 9.6	+4.6	94%
New York	4.5	16.3		12.7				29.0	+24.5	552%
NNEPRA (Maine)	4.8	3.1		1.9				5.0	+0.2	4%
Conn/Mass (Spg. Shuttle)	-	9.4	¹	1.8				11.2	+11.2	na
Pennsylvania	9.5	21.5	¹	4.4				25.8	+16.3	171%
Virginia	4.7	5.8	¹	2.9				8.8	+4.1	88%
North Carolina	4.5	6.2		1.2				7.4	+2.9	65%
Illinois	26.1	32.1		9.0				41.2	+15.1	58%
Wisconsin	5.1	3.8		1.4				5.2	+0.1	2%
Michigan	8.2	16.9		6.4				23.3	+15.1	185%
Oklahoma	1.4	2.1		0.4				2.5	+1.1	74%
Texas	1.4	2.1		0.4				2.5	+1.1	74%
Indiana	-	2.8		1.0				3.8	+3.8	na
Missouri	8.5	7.4		1.4				8.8	+0.3	4%
California - Caltrans	61.8	69.7		8.3				78.1	+16.3	26%
California - CCJPA	26.2	29.3		1.7				31.0	+4.8	18%
Oregon	6.3	5.1		0.9				6.0	(0.3)	(5%)
Washington State	13.2	10.7		1.9				12.6	(0.6)	(5%)
	\$ 191.1	\$ 252.5		\$ 59.2		tbd		\$ 311.7	+120.6	63%
								+ Fixed Asset Capital Charge		

1) Reductions in operating support due to alternative through revenue proposal

Based on 12 months of APT data Mar-10 to Feb-11. Future forecasts can be expected to vary +/- 5% as new results become available.

Components of Variance Between Existing and Proposed Policy August 12 Proposal - Operating



- \$69.6M of variance explained by conversion from system trains to State-supported trains
- \$2.4M of variance explained by phaseout of existing through-revenue credited to State – reduced due to alternative through-revenue policy
- \$10.7 of variance is reduction in State-support due to other changes resulting from some combination of new cost allocation system; net improvements in cost recovery; change from old to new policy