

## **WRITTEN TESTIMONY**

### **“UNDERSTANDING THE COST DRIVERS OF PASSENGER RAIL”**

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**HOUSE OF REPRESENTATIVES  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS  
MAY 21, 2013**

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It is a pleasure to be here today before the Subcommittee.

I have been asked to provide my commentary on the topic of today's hearing, "Understanding the Cost Drivers of Passenger Rail ". I will focus on tools that managers of state-supported intercity passenger rail (IPR) services can use to make informed decisions that will improve the efficiency and utilization of these IPR services.

I have over 15 years experience in the management of the Capitol Corridor IPR trains that operate in the Northern California Megaregion, connecting the metropolitan areas of Sacramento, the San Francisco Bay Area and San Jose/Silicon Valley. Throughout my career at the Capitol Corridor Joint Powers Authority (CCJPA), Amtrak has been the contract operator for the Capitol Corridor trains.

The State of California has always supported the Capitol Corridor service by providing funds to help offset the net operating costs, which is the difference between total operating costs and revenues.

From FY2011 (using audited financials) to the FY2014 forecast (received on April 19, 2013), the major cost drivers which have impacted the Capitol Corridor are:

- Fuel, which has increased 18% for an average annual increase of approximately 6%
- Direct Route Costs, such as crews, equipment maintenance, food service and marketing, which have increased 6%, an average of approximately 2% per year
- Shared Costs, such as overhead and shared facility costs, have increased 8%, an average of approximately 2.3% per year

Over the past 15 years, the CCJPA has worked with its local Amtrak team to control the operating costs while maximizing revenues and constantly improving the customers' experience on the Capitol Corridor trains.

As you can see, fuel is the largest driver of cost increases for the Capitol Corridor. External factors have had an upwards impact on the price of fuel which has driven an increase in the price of diesel fuel for the Capitol Corridor. I am quite sure that this impact is being felt by my colleagues at other state IPR agencies. While control of this cost driver can be difficult to implement, it becomes important that Amtrak, which purchases the fuel for the state IPR services, work with its state partners to develop conservative budget estimates to provide the contingency to absorb any external global actions that would lead to a spike in fuel prices. At the

CCJPA we try to control fluctuations in fuel pricing by opting into Amtrak's fuel hedging program. While this hedging does not guarantee a reduction in fuel costs, it does provide a moderating factor that levels out the potential for large spikes in fuel prices.

Another means to control costs is to adjust train schedules that will optimize the service performance of the train services. With completion of upgrades to the Sacramento Valley Station funded by the American Recovery and Reinvestment Act, the CCJPA, working with our local Amtrak management team, instituted a service change that optimized the Capitol Corridor train schedule by reducing weekday service from 32 to 30 trains. We eliminated two under-performing weekday trains which resulted in savings of \$2.5 million (per FY2014 budget forecast) or 4.2% of the total Capitol Corridor operating budget, primarily in fuel and direct route costs. While ridership has declined 3% on the Capitol Corridor, revenues and customer satisfaction are still even with last year's levels.

To that end, you can see that the ability to control operating costs while maintaining solid, consistent performance and keeping the passengers happy requires a strong partnership between the manager of the trains, CCJPA, and its operating contractor, Amtrak.

I would like to transition to another relevant topic in understanding the future of cost drivers in state IPR services – PRIIA Section 209 Policy.

The timing of this hearing is very appropriate given the deadline of October 2013 for the implementation of the PRIIA Section 209 Policy which will govern the pricing of state-supported, Amtrak-operated IPR services.

In addition to my current duties at the Capitol Corridor JPA, I was tapped to lead the State Working Group (SWG), representing the state IPR agencies in the negotiations with Amtrak to develop and implement the PRIIA Section 209 Policy. The Policy now provides state intercity passenger rail agencies a better opportunity to gain control over the costs of their IPR train services.

In the development of the Section 209 Policy, the states and Amtrak recognized that to ensure the acceptance by all parties the Policy must be transparent, equitable and fair in the allocation of operating costs and equipment capital costs from Amtrak to the state IPR agencies.

As background, the states have been cooperatively working with Amtrak since 2010 in the development of the Policy, which provides state IPR agencies with a menu of fifteen (15) functions to select from in the development of the service plan and budget for their IPR train service(s). In August 2011, the final Policy was distributed to states and by November 2011, all but one of the 19 states affected by Section 209 adopted the Policy. Per the Policy, states have agreed to reimburse Amtrak for:

- 100% of 3<sup>rd</sup> party costs, such as fuel and host railroad costs and
- 100% of Route Costs, 15 categories of costs which are verifiably and directly associated with the operation of a route, and
- Support Fees applied to Route costs via additive rates to cover management, overhead and other backbone costs which are not route specific in 15 basic functions.
- Investments made in Amtrak-owned rolling stock used by States in the operation of their routes, based on the number of units used.

In March 2012, the Surface Transportation Board (STB) confirmed the development and elements of this Policy.

Since the actions to approve and adopt the Policy in November 2011, Amtrak has been working to develop the FY2014 forecasts for both operating expenses and the equipment capital charges. Amtrak has provided states with cost projections based on FY11 and FY12 costs, however the FY2014 projections were just released to the states one month ago on April 18, 2013.

According to Amtrak, estimated state payments of \$193 million in FY13 are forecasted to increase to \$317 million in FY14 (including operation and equipment capital), representing a lump sum increase of \$119 million (or 60%). Most states have been working with their legislative houses and governor's offices to increase their share of support for their IPR services and are now beginning to see if the FY2014 Amtrak forecasts can be absorbed within their state FY2014 budgets.

In parallel, the SWG has been meeting with Amtrak to review these FY2014 Amtrak operating forecasts and ensure that these forecasts adhere to and follow the Section 209 Policy. The results of these discussions with Amtrak should help state IPR agencies understand the cost drivers for these state-supported IPR services.

An initial review of Amtrak's FY2014 operating forecasts using the Section 209 Policy indicate that fuel, direct route costs and equipment capital charges have driven the increase in state IPR service operating costs. Specifically, crew transportation and equipment maintenance expenses are the largest costs in terms of dollars. Another cost function that requires further evaluation is food and

beverage service. As state IPR agencies will now be paying for the net difference between food and beverage revenues and expenses, the interplay between crew and material expenses when compared to revenues will necessitate detailed analyses. These are areas where the SWG and state IPR agencies will work with Amtrak to find ways to gain efficiencies and control these cost drivers.

Upon review of Amtrak's annual reports, since the passage of PRIIA in October 2009, total operating costs (including PEBs) on the Northeast Corridor (NEC) have dropped 4.9% between FY2012 and FY2009. At the same time, costs for the state-supported routes have increased 11.6% and the long distance network routes have gone up 20.9%.

Based on these annual report figures combined with the initial findings on the cost drivers in the FY2014 Section 209 forecasts, the states eagerly look forward to working with Amtrak to help drive down the costs for the state-supported Amtrak-operated IPR services to capture similar cost reductions that were effectuated for the NEC.

Between the state IPR agencies and Amtrak, I believe that numerous strategies and initiatives are available to confront the rising costs for state IPR services.

As previously mentioned, one of the most effective tools is to implement strategic service changes to optimize service performance. This is a delicate balancing act. State IPR agencies need to ensure that cost reductions are specifically targeted so as avoid negatively impacting customer satisfaction. This is where Amtrak as the operating partner can and must provide its resources to assist states. The Capitol

Corridor implemented such a plan in 2012 to reduce costs while maintaining a high quality of service to the paying public.

Another tool is to improve the other side of the balance sheet – revenues. The use of ticket pricing strategies can further offset increasing costs. The Amtrak reservations system uses yield management pricing, similar to the airlines, to maximize revenues by applying various algorithms based on day of purchase versus day of travel versus seats available for that particular leg of the trip.

For those IPR agencies that do not have a ticket reservation system, one possibility is to offer discounted tickets through promotions and offers that entice people to travel when there are seats available. For example, the Capitol Corridor just completed an on-line campaign that offered 50% discounted tickets on weekends. Previously we also provided mid-day, mid-week 50% discounts for senior citizens. Also, every year for the past 10 years we have offered a youth and school group program that provides steeply discounted group travel tickets on off-peak travel trains, which is very successful in introducing school children and boy/girl scout troops to the pleasures of train travel.

Using a combination of controlling cost drivers and increasing revenues, state IPR agencies, through the Section 209 Policy, can now select from a menu of functions that Amtrak can provide in the delivery and operation of these state IPR services.

When choosing from the menu of services available in the Section 209 Policy, states, as clients, need to be aware of what Amtrak, the contract vendor, brings to the table as an operating partner:

- Ability to access host railroad track for IPR services at a federally-mandated incremental cost basis, which is significantly lower than commercially negotiated commuter train access costs
- Lowered insurance premiums as insurance costs are pooled across the entire Amtrak network
- Provides indemnification to state IPR agencies as their contract operating partner
- Owner of operating slots on host railroad tracks for nearly all of the state IPR trains (exception for three California IPR services)
- Owner of train equipment used in majority of state IPR trains (exceptions include North Carolina, and most of the IPR services in Washington/Oregon and California,)

In closing, the Section 209 Policy allows state IPR agencies to acquire the tools to understand and control cost drivers in their IPR services. These tools can help states make business-based decisions in the delivery of their IPR services that meet the needs of the traveling public while also ensuring these services are cost-effective.

With the implementation of the Section 209 Policy, states now can leverage the federally-enabled institutional arrangements bestowed upon Amtrak as an operating partner while also forming other partnerships to develop and manage the operation of high-performance, efficient state IPR services.

Thank you for the opportunity to present this testimony.

**COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**  
*Truth in Testimony Disclosure*

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Pursuant to clause 2(g)(5) of Rule XI of the Rules of the House of Representatives, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

**(1) Name: DAVID B. KUTROSKY**

**(2) Other than yourself, name of entity you are representing: CAPITOL CORRIDOR  
JOINT POWERS AUTHORITY**

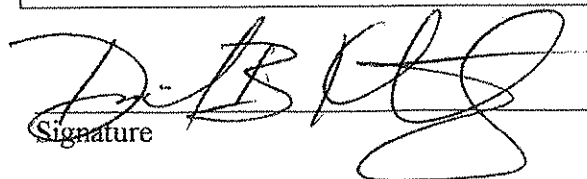
**(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity? NO**


**YES**                      If yes, please provide the information requested below and  
attach your curriculum vitae.

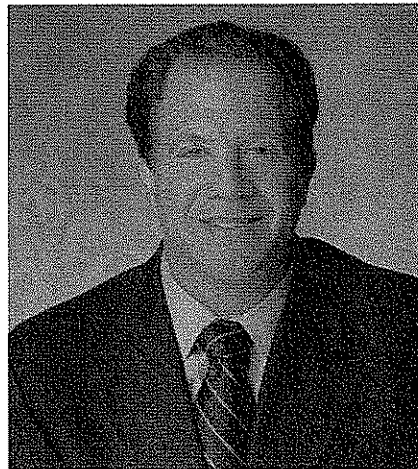
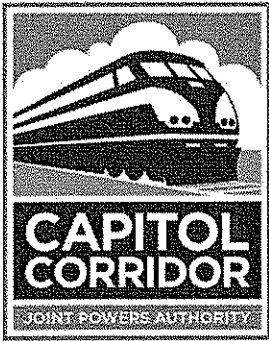
**NO**

**(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:**

- Subgrantee: Yolo West Crossover Project, \$4,854,396, American Recovery and Reinvestment Act awarded to the California Department of Transportation, FY2010, Grant No. FR-HSR-0100-11-01-00 sub contracted to Capitol Corridor Joint Powers Authority. Federal Grantee – Federal Railroad Administration
- Subgrantee: Support Services to California High Speed Rail Authority, \$750,000, Agreement #HSR12-11 sub contracted to Capitol Corridor Joint Powers Authority. Federal Grantee – Federal Railroad Administration

  
Signature

  
Date



### **Background Information**

**David B. Kutrosky  
Managing Director  
Capitol Corridor Joint Powers Authority**

David has over twenty-five (25) years of extensive multi-modal transportation engineering, planning, and financing experience. He is currently the Managing Director for California's Capitol Corridor Joint Powers Authority (CCJPA), the agency responsible for the management of the Amtrak-operated intercity passenger rail service between San Jose – Oakland/San Francisco – Sacramento/Auburn. David oversees a dedicated management team whose specific duties include operations and strategic planning, capital programming, customer service, budget and contract administration, public and legislative affairs, and marketing. He also serves as Chair of the American Public Transportation Association (APTA) High Speed Intercity Passenger Rail Committee, as the Chair of PRIIA Section 209 State Working Group for Amtrak Intercity Corridor Pricing Policy, and as Facilitator for the Northern California High Speed Rail Service Integration Working Group.

Prior to his current duties, David was Deputy Director for the CCJPA for over 5 years. He started his public transit career in the Planning Department at BART and oversaw BART's planning efforts to develop a regional passenger railroad service, which lead to BART's role as managing agency to the CCJPA. He started his career as a consultant in traffic engineering, transit operations planning, and airport planning and design.

He has a bachelor's degree from University of California, Los Angeles and a master's degree from University of California, Berkeley.