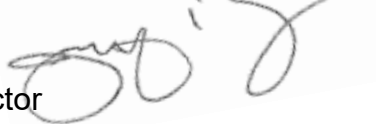




June 17, 2019

To: Members of the Board of Directors

From: Jennifer L. Bergener, Managing Director 

Subject: Amendment to the Federal Fiscal Year 2018-19 Operating Agreement with Amtrak for Pacific Surfliner Intercity Passenger Rail Service

Overview

The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency has secured the exclusive use of six Amtrak-owned passenger cars on the Pacific Surfliner intercity passenger rail service to help address equipment needs for expanded service including the forthcoming 13th roundtrip between Los Angeles and San Diego. The six cars are typically used on Amtrak long-distance trains and do not include the same passenger amenities provided on the equipment currently in use on the Pacific Surfliner service. In order to upgrade the cars and deliver a consistent quality of service, staff is seeking authorization to amend the current federal fiscal year 2018-19 Amtrak operating agreement, related fiscal year budgets, and funding supplements.

Staff is also seeking authorization to amend the current federal fiscal year 2018-19 Amtrak operating agreement, related fiscal year budgets, and funding supplements to allow for the additional federal fiscal year 2018-19 estimated net Amtrak operating costs and necessary funding to implement enhancements to the business class cars operating on the Pacific Surfliner service.

Recommendations

- A. Authorize the Managing Director to amend the Amtrak operating agreement for federal fiscal year 2018-19 for rail car upgrades, business class enhancements and additional federal fiscal year 2018-19 operating costs in an amount not to exceed \$4,871,316.
- B. Amend the fiscal year 2019-20 operating revenue and expense in the amount of \$5,016,935 for Amtrak rail car upgrades, business class enhancements and additional federal fiscal year 2018-19 net Amtrak operating costs.

- C. Amend the fiscal year 2018-19 operating budget down by \$145,619 in order to decrease Amtrak operating expenses for rail car upgrades.
- D. Authorize the Managing Director to amend and execute Master Fund Transfer Agreement annual supplements necessary for rail car upgrades, business class enhancements and additional federal fiscal year 2018-19 operating costs.

Background

On August 21, 2017, the Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) Board of Directors (Board) authorized the Managing Director to negotiate and execute an agreement with Amtrak to provide for the continued operation of the Pacific Surfliner intercity passenger rail service for a term of two years, in an amount not to exceed \$33,006,040 for federal fiscal year (FFY) 2017-18, and in an amount not to exceed \$32,325,567 for FFY 2018-19, subject to updated forecasts provided by Amtrak and future funding approvals by the State of California and the LOSSAN Agency Board. The agreement was executed and effective as of October 1, 2017, and is valid through September 30, 2019.

On September 17, 2018, the LOSSAN Agency Board authorized the Managing Director to amend the Amtrak operating agreement for FFY 2018-19 in an amount not to exceed \$33,596,762. This amendment incorporated a revised funding amount for FFY 2018-19 consistent with Amtrak's FFY 2018-19 operating forecast and the LOSSAN Board-adopted fiscal year 2018-19 budget. The amended operating agreement not to exceed amount of \$33,596,762 included an estimate of \$145,619 for upgrades to the six rail cars. The cost for the rail car upgrades was a preliminary estimate at the time, and only included estimates for the cleaning and rehabilitation of the six Amtrak-owned cars. The LOSSAN Agency Board amended the LOSSAN Agency's fiscal year 2018-19 budget for \$145,619 for the estimated cost of the rail car upgrades. Amtrak has provided an updated cost estimate for the refresh, including installing WiFi on the six cars in the amount of \$516,935.

The LOSSAN Agency also seeks to further enhance the Pacific Surfliner business class service by providing a consistent and upgraded passenger experience including refreshed seating, improved onboard passenger information, and other minor improvements in the amount of \$1.5 million.

Finally, the LOSSAN Agency has requested additional FY 2018-19 operating funding from the state due to overall higher net operating costs over the original Amtrak forecast in the amount of \$3 million.

Discussion

Six Superliner Rail Car Upgrades

The LOSSAN Agency, working in partnership with Amtrak, was able to secure six additional Amtrak-owned Superliner bilevel passenger cars for exclusive use on the Pacific Surfliner service. These cars will help address equipment needs for expanded train service including the forthcoming 13th roundtrip between Los Angeles and San Diego. In addition, the exclusive use of the equipment will help address overcrowding on key Pacific Surfliner trains.

The six Superliner cars are typically used on Amtrak long-distance trains and do not include the same passenger amenities provided on the equipment currently in use on the Pacific Surfliner service, creating a disparity in the rider experience. There are two elements that need to be immediately addressed with these cars in order to deliver a consistent quality of service. The first is installation of onboard WiFi, and the second is a general refresh on the cars to address aesthetic issues and provide consistency with other train cars in the Pacific Surfliner fleet. Over the last several months, the service has seen a degradation of the electronic customer satisfaction index scores and an increase in the number of customer complaints that can be directly attributed to these cars and the lack of WiFi and the need for the refresh.

The current cost estimate from Amtrak to install WiFi on the six cars is \$448,876. This includes a contingency of \$20,000 to cover the cost of asbestos abatement and removal as needed. The previous cost estimate from Amtrak for the refresh of the cars was \$145,619. The current cost estimate is \$68,059 which includes thorough cleaning, replacing floors in bathrooms, and installing decals for business class service. The previous estimate included repairing bathroom sinks and damaged wainscoting, which now will be handled through Amtrak's ongoing maintenance efforts. The total cost estimate for the WiFi and refresh effort is \$516,935 (including \$20,000 contingency).

The net increase requested for the operating agreement amendment is \$371,316, (\$516,935 less \$145,619 previously amended in the agreement). Since the work is anticipated to commence during the first quarter of the LOSSAN Agency's FY 2019-20, a budget amendment for \$516,935 is necessary to increase the revenues and expenses associated with this effort. The California State Transportation Agency (CalSTA) has committed operating funding necessary for this project. In addition, staff is recommending amending the FY 2018-19 budget to reduce the previous budget amendment of \$145,619, which will not be utilized.

Business Class Enhancements

The Pacific Surfliner business class service is a valued and successful amenity offered to passengers. Over the last three years, the LOSSAN Agency has successfully implemented an expanded business class service by increasing the number of available seats and improving the food and beverage offerings. The LOSSAN Agency also worked to enhance marketing efforts to highlight the business class enhancements. This has resulted in an increase in revenue that has averaged over 16.8 percent per year since the program inception.

The LOSSAN Agency proposes to further enhance the business class service by providing a consistent and upgraded passenger experience by including refreshed seating, improved onboard passenger information, and other minor improvements. This work will be performed by Amtrak in coordination with the LOSSAN Agency.

This enhancement effort will include: replacing all seat cushions with leatherette in 10 Pacific Surfliner business class cars; and replacing seat frames in the two California Department of Transportation (Caltrans)-owned business class cars to be consistent with the rest of the fleet; replacing all seat cushions with leatherette, adding three additional rows of seating (total of 80 seats), and adding five tables to 10 Amtrak-owned Superliner cars (dedicated for business class service on the Pacific Surfliner). This work is estimated by Amtrak to cost \$1.5 million and anticipated to be completed by December 2020. The LOSSAN Agency has requested FY 2018-19 operating funds from Caltrans and CalSTA for this project.

Federal Fiscal Year 2018-19 Operating Cost

The LOSSAN Agency, through the established budget development process worked with Amtrak to develop the FFY 2018-19 operation budget for the Pacific Surfliner. While the forecast was provided by Amtrak in March of 2018, the figures were based off FFY 2016 actuals, and deemed reasonable at the time of development. Due to unforeseen circumstances at the time the budget was developed, the route costs are now higher and the revenues lower than anticipated.

The major route costs experiencing higher expenses than forecasted include stations route and stations shared (\$1.4 million combined), train and engine crew labor (\$800,000), car and locomotive maintenance (\$780,000), reservations and call centers (\$565,000), on board service crew (\$500,000), commissary (\$357,000), fuel and power (\$350,000). While some of these route costs may be experiencing a timing issue due to cyclicalities, other areas such as fuel variance are attributed to higher fuel costs than originally forecasted. In addition,

total revenue is short of forecast by \$686,000. Ticket revenue is under forecast by approximately \$1 million through March 2019, and food and beverage positive revenue growth is offsetting ticket revenue shortfalls.

Although there are six months left in the FFY and the current funding deficit could be reduced, the LOSSAN Agency's intent is to be proactive and request additional operating funding from the state if current trends continue through the remainder of the FFY. The LOSSAN Agency has requested \$3,000,000 in additional operating funds from the state, which assumes the depletion of the LOSSAN Agency's operating reserve fund.

The LOSSAN Agency has requested the additional operating funding necessary for the rail car upgrades, business class seat enhancements, and additional federal fiscal year 2018-19 operating costs. Caltrans has indicated that additional FY 2018-19 operating funds will be available to support these efforts. If any of the projects need additional funding, or if the work extends into FFY 2019-20, staff will return to the Board for any budget or agreement amendments as necessary.

Summary

The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency has secured the exclusive use of six Amtrak-owned passenger cars on the Pacific Surfliner intercity passenger rail service. These cars are currently not consistent with the passenger amenities provided on the equipment currently in use on the Pacific Surfliner service and require WiFi and an interior refresh in order to deliver quality service. Staff seeks to further enhance business class service by refreshing the seating and onboard passenger information. Finally, additional operating funding is needed if current net Amtrak operating cost trends continue to be over forecast. An amendment to the federal fiscal year 2018-19 Amtrak operating agreement is necessary in an amount not to exceed \$4,871,316, which includes \$371,316 for the rail car upgrades (\$516,935 less \$145,619 previously amended in the agreement), \$1.5 million for business class enhancements, and \$3 million for additional federal fiscal year 2018-19 net Amtrak operating costs.

A fiscal year 2019-20 budget amendment in the amount of \$5,016,935 is necessary due to this work commencing in fiscal year 2019-20.

In addition, staff is recommending a fiscal year 2018-19 budget amendment to reduce the previously amended budget in the amount of \$145,619, since this budget capacity is no longer needed in fiscal year 2018-19.

Attachment

None.

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