American Association of
Private Railroad Car Owners, Inc.

Tony Marchiando, President
president@aaprco.com – 314-623-2096

311 East Main Street, Suite 512, Galesburg, IL 61401-4838

March 13, 2019

Stephen Lord, Assistant Inspector General
Office of Inspector General
National Railroad Passenger Corporation
10 G Street NE, 3W-300
Washington, DC 20002

Re: OIG-A-2019-003 February 6, 2019

Dear Mr. Lord:

The American Association of Private Railroad Car Owners (AAPRCO) represents many of the owners of private passenger railroad cars authorized to operate on the Amtrak system. Many of these owners have operated their railroad cars on all or most of the intercity passenger railroad system, safely, for decades and have paid Amtrak collectively millions of dollars for this service.

We welcomed an audit of Amtrak's private railcar management and business practices in the hope that it would lead to an improvement in the economy, efficiency, and effectiveness of the operation.

In reviewing the audit report, we were guided by these principles:

a. **Safety is of paramount importance.** For many years, AAPRCO itself has had a detailed Code of Ethics and Safety Standards. Since at least 1996, 27 AAPRCO special trains have operated with no FRA-reportable events. A proposed Private Car Safety Manual was developed last year jointly by Amtrak, the Railroad Passenger Car Alliance (RPCA) and AAPRCO. **We suggest this manual now be officially adopted** - We are committed to safe operations
b. Private railcars should be carried at a reasonable profit to Amtrak – We are not freeloaders
c. Expenses, and resulting charges for service, should be based on sound accounting and a recognition of the actual incremental extra cost to add private railcars to trains that are already operating – We understand the railroad
d. The operation of private railcars provides an effective way to reduce the subsidy required to operate Amtrak and help reduce net operating losses for long distance trains in particular – We support PRIIA

e. We believe in a robust, connected, network of trains serving as much of the United States as possible and our members have historically put their personal political support behind Amtrak when threats to Amtrak have arisen – We want to support Amtrak
f. The market for special travel experiences has an upper limit on what price people are willing to pay and above that limit trips cannot run. Conversely, more opportunities to operate cars more efficiently across the Amtrak system will increase revenue to Amtrak and private car operators alike – We understand economics
g. Amtrak has a responsibility to operate a transportation system for all of its customers in a timely, cost effective manner – We are customers too
h. Private railcars offer promotional value to Amtrak as they draw many people to passenger rail who were not previously aware of it, and inspire them to become Amtrak passengers in the future – We help promote Amtrak
i. Owners of private railcars use them for a variety of purposes: personal use, entertaining business customers, preserving our American railroad heritage, and to serve groups of people who enjoy a unique form of travel. Ideally a representative of each category of owner would have been interviewed for a comprehensive audit – We are diverse

The following comments are presented in the same order as in the audit report:

1. On page 2 it is noted that mechanical services were excluded from the scope after the company decided in April 2018 to significantly reduce these services. We believe this decision was arbitrary and "leaves money on the table" whereby Amtrak was able to offer services using excess shop capacity and earn money doing so. Some of these services are generally unavailable outside of Amtrak, especially with the March 2018 contraction of available on/off points for private cars.

2. On page 2 and 3 the audit recommendations are summarized. <u>AAPRCO agrees with and supports all 5 conclusions</u>. We do not, however, agree with all of management's specific actions and certainly do not support or agree with the actions taken in March and April of 2018 while the audit was underway and before its conclusions had been reached. Decisions should not be taken without data or based on conjecture – a finding in this very audit report.

3. We appreciate the reference to PRIIA on page 3. The operation of private railroad cars on existing Amtrak trains utilizing excess unused locomotive haul capacity is exactly the sort of subsidy-reducing private sector revenue opportunity that
Section 24101(d) of Title 49 USC is talking about. This should be a guiding north star in analyzing the private car business.

4. The data in the table atop page 3 shows that Amtrak's pricing, access, and customer service philosophy have <u>reduced</u> revenue by $1.95 million or 38% from

Fiscal Year	Movements & Ancillary[1]	Moves[1]	Cost per Move[3]	Rate per Car Mile[4]
2015	$5,141,906	500	$10,284	$2.75[5]
2016	$3,650,549	330	$11,062	$2.80[6]
2017	$3,713,212	314	$11,826	$2.88[7]
2018	$3,192,000[2]	?	?	$2.90 - $3.26[8]

1. FY 2015-2017 data is from Figure 3 in OIG-A-2019-003
2. Page 1 of OIG-A-2019-003; assumes "mechanical" is included in "movement and ancillary" for all prior years in Figure 3
3. Calculated as movements and ancillary / moves = cost per move
4. Tariff Mileage Rate
5. Effective October 1, 2014 (prior rate was $2.10 per mile, 31% increase)
6. Effective October 1, 2015
7. Effective October 1, 2016
8. Effective October 1, 2017 @ $2.90, Effective May 1, 2018 @ $3.26, 12.4% increase

FY 2015 to FY 2018, even as the rates have increased by 18.5%. The severe, negative impact of policies and rates implemented since March, 2018, triggered retirement of several cars and has seen, for example, the number of cars based in Los Angeles drop from 17 a year ago to seven now. Of those seven, four have firm plans to leave and one is for sale. It will be Fiscal Year 2020 before the full negative impact is felt. The law of diminishing returns is at work. As the per mile cost has gone up, trips become more expensive to run, fewer trips are run, and revenue drops. The market for private railcar travel is elastic; price increases lead to reduced revenue. Inefficient administrative processes, unpredictable decisions on whether trips can run or not, and draconian reductions in where cars can get on and off the system also have reduced trips. Furthermore, shop policy changes have and will reduce Ancillary revenue.

5. **"The Company Does Not Know the Extent to Which Its Billing and Pricing Cover Its Costs"** (p. 7)**.** Without good data, two radical increases were made to the rates for private railcar movements (12.4% on May 1, 2018 and 12.6% on January 1, 2019) on top of the annual increase made on October 1, 2017. We agree that more information is needed; we do not agree that using the charter and special movements tool or the APT are appropriate for calculating the cost of adding a privately owned and crewed railcar to a regularly scheduled train as suggested on page 8. Since the train is running anyway with or without the private railcar coupled on, essentially the only extra costs are a modicum of fuel due to the extra hauled weight and HEP draw, switching at the terminal station, ancillary services, and an apportioned cost of administering the private railcar program. As stated on page 9, this was historically how Amtrak approached this business – likely because Amtrak managers and operators originally came from the for-profit private railroads that transitioned their passenger operations to Amtrak in 1971: operations in which private railcars were common. In order to test this historical assumption, AAPRCO commissioned a six-month study by a prominent transportation economics consultant. This work concluded that

Amtrak's tariff – even before the 5/2018 and 1/2019 increases, more than covered Amtrak's costs and thereby provided Amtrak a robust profit margin.

6. Beginning on page 9 is a discussion of missed opportunities to generate additional revenue. The audit report correctly notes that Amtrak does not adjust its prices based on changes in demand. In any system that seeks to increase revenue through pricing adjustments (such as Amtrak's pricing for coach and sleeper service), there are changes made which increase <u>or decrease</u> prices based on fluctuating demand. In periods of high demand, prices can be increased provided that the elastic point has not already been exceeded, however the private railcar market gets smaller as prices and hassles go up. In periods of low demand, prices are reduced with a goal of inducing demand and earning revenue by selling space that would otherwise be unused. There is tremendous capacity available all across the Amtrak system to add private railcars to existing trains and they can be added if the price can meet market tolerances. Management's response to the audit <u>completely ignores</u> the concept that by reducing prices in periods and locations of low demand there could be new revenue earned; they only eagerly promised to raise per mile charges across the board again. An unexplored significant issue is the administrative burden of setting a fluctuating price.

7. The commentary presented on page 10 makes it apparent that the Inspector General believes that Amtrak is underpricing private railcar operations. The report says Amtrak "charged a private railcar owner its regular prices during the [New Orleans Jazz] Festival, which totaled $17,326. In contrast, the owner charged customers prices as high as $5,990 per bedroom – potentially grossing up to $59,000 at full capacity." Actually, owners' costs far exceed trip-specific payments to Amtrak and include food, on board service staff, ground tours, deadhead (positioning) moves, property and liability insurance, parking at approximately $20,000 per year, mechanical service, capital repairs such as $12,000 wheel sets, and inspections. This error could have been avoided if active owners had been interviewed and allowed to review a draft report as management was. In addition, many trips are sold on private cars for far lower prices. LA Rail sold thousands of $189 trips before Amtrak effectively put it out of business last year due to the combination of higher movement charges and being denied access to San Luis Obispo (CA) and San Diego as access points at marketable times. The operation of private railroad cars is not a lucrative business – otherwise more people would be doing it instead of the declining numbers we are witnessing now.

8. On page 10 there is discussion of charges for Ancillary Services such as ice and water. We agree with management's former posture that the administrative burden would outweigh the revenue to be had **and that such small items should be considered covered by the mileage rate**. For example, charging for water at Washington Union Station would yield revenue of less than $3.00 for filling up a private railcar (typically water tanks hold 250 to 500 gallons and the

Non-Residential rate is $5.88 per 1,000 gallons of water according to the DC Water and Sewer Authority FY 2018 Rate posted to their website). Unless Amtrak's accounting and billing operations are miraculously efficient, the touches required to calculate, log, report, data enter, and bill a $3.00 charge would cost far more that it would yield.

9. AAPRCO stands ready to meet with Amtrak to share our ideas for how to increase Amtrak's private railroad car revenue while reducing administrative burden.

10. As noted on page one, we support development of a safety guidelines manual for private railcar owners and establishment of an escalation / disqualification process for owners who violate the rules.

11. Recommendation 1 (page 13) is to use Amtrak's financial tool for charter and special movements and its cost accounting system to identify costs in the private railcar movement operation. As noted in #5 above, these are not appropriate tools to use when determining the cost of adding a privately owned, maintained, insured, provisioned, and crewed railcar to a regularly scheduled train. The analysis performed by AAPRCO's consultant would be more appropriate and relevant to the actual net incremental extra cost.
12. Recommendation 3 (page 13) should be supplemented by adding item d. calling for adoption of the current draft safety manual created by Amtrak and reviewed by private railroad car owner representative organizations. AAPRCO and Amtrak are both committed to safe operations and the audit report should reinforce that.

The American Association of Private Railroad Car Owners believes that the economic, efficient, and effective management of the private railcar operations program by Amtrak can yield important subsidy-reducing revenue for Amtrak and that this revenue can be increased through sensible changes to the management of the program which do not include additional unjustified increases in costs and restrictions in train access. We ask that the Inspector General for Amtrak take into serious consideration our review comments above and help make this program better.

Sincerely yours,

Tony Marchiando

Tony Marchiando, President
American Association of Private Railroad Car Owners, Inc.

cc: Mr. Anthony R. Coscia, Chairman, and members of the NRPC Board of Directors
Mr. Richard H. Anderson, President and Chief Executive Officer
Mr. Stephen Gardner, Executive Vice President
Mr. Scot Naparstek, Executive Vice President / Chief Operating Officer
Mr. W. Roger Fuehring, President, Railroad Passenger Car Alliance