

TESTIMONY

of Paul C. Worley

North Carolina Department of Transportation Rail Division

before the

Oversight and Government Reform Committee

Subcommittee on Government Operations

United States House of Representatives



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Chairman Mica, Ranking Member Connolly, and members of the Subcommittee, I am pleased to have the opportunity today to come before you and discuss North Carolina's state-supported intercity passenger rail program, our *Piedmont* and *Carolinian* services and use of vending machines to provide food service aboard most of our trains.

My name is Paul Worley, and I am Rail Division Director with the North Carolina Department of Transportation. Our Department has been an active participant in and leaders among the American Association of State Highway and Transportation Officials (AASHTO) Standing Committee on Rail Transportation and the States for Passenger Rail Coalition. We have also been an engaged participant in the States Working Group on the development of the cost allocation policy and working through the PRIIA Section 209 negotiations with Amtrak.

The North Carolina Department of Transportation Rail Division, or NCDOT, began operation of the *Carolinian* rail passenger train service in May 1990 using Amtrak-owned equipment. This route operates between Charlotte-Greensboro-Raleigh-Washington-New York. In May of 1995, the state-supported Raleigh to Charlotte *Piedmont* service was added. This service was implemented to connect the state capital of Raleigh to our state's business center of Charlotte. Amtrak equipment was not available for this service so NCDOT procured its own equipment – rehabbing used coaches and locomotives for half the cost of new equipment.

Both services have enjoyed tremendous growth, with the *Piedmont* leading the Amtrak system in ridership growth in recent years. The *Carolinian* has grown to the point that capacity constraints are limiting further expansion in the near term. In addition, the *Piedmont*, with its unique state-owned equipment, has consistently been among the best in the country for customer service and satisfaction. Over the past ten years, ridership on the *Piedmont* service has grown from just under 40,000 riders in FFY2003 to over 170,000 riders in FFY2013. A second daily round trip was added in June of 2010.

Our intercity passenger rail service has evolved as we partnered with the USDOT, North Carolina Railroad Company, Norfolk Southern Railway and CSX Transportation to improve safety, strengthen rail infrastructure and reduce travel times. For the first seven years of *Piedmont* service, 1995-2002, NCDOT offered a traditional café style food and beverage service. The NCDOT-owned café car had both lounge and booth seating, a self-service cafeteria-style counter line with display refrigeration units containing prepackaged foods and beverages, and a fully-equipped galley for hot meal preparation. The car was staffed with one full-time employee of a private sector contract food and beverage service provider. NCDOT competitively bid the *Piedmont* food and beverage service over multiple year contracts. The contractor was responsible for provisioning the café car, preparing meals and providing customer service. NCDOT's private sector train maintenance contractor was responsible for maintaining and cleaning the café car during layover periods.

While the original *Piedmont* food and beverage service was very popular with passengers, it was also very expensive to operate and maintain. Due to the preparation of hot meals – sausage and egg biscuits, grits, barbecue and the like – on board the car, the North Carolina Department of Health and Human Services ruled that NCDOT's café car was a "rolling restaurant," and therefore had to comply with all state restaurant regulations and inspections. The restaurant fumigation requirements added costs, mainly by increasing the spare railcar ratio. Food onboard a train requires many "touches," from distributor, inventory, commissary and on-

train storage, to preparation and serving the customer. A restaurant requires seating and with a ready supply of customers, turnover. The train duty cycle is long and staffing the café car with good reliable employees 7 days a week, 365 days a year was the most challenging aspect of the service. During an average year, the café car service with hot food cost NCDOT approximately \$350,000 after sales revenues were applied to total labor, product and maintenance costs. The Rail Division determined that this annual food and beverage service loss was not sustainable or justifiable for the type of intra-state passenger service provided by the *Piedmont*, where the total trip time had been reduced by a full hour to three hours, fifteen minutes.

In part due to the reduction in trip time, and the expense of offering hot meal service, food service on the *Piedmont* was modified to include a limited self-service menu of coffee, complimentary beverages and snacks. Complimentary items were offered until we could reevaluate our service, retool our equipment and change our offerings.

At the same time, NCDOT was also reevaluating its checked baggage service, which required the lease of Amtrak-owned baggage cars. That full-length baggage car was underutilized due to the short *Piedmont* trip lengths. In addition to the baggage car lease payments, NCDOT had to pay for the ongoing maintenance of the car. Thus the cost-benefit ratio for *Piedmont* baggage service was poor, much like the food and beverage service prior to 2003.

After much in-house research and surveying of passengers, NCDOT decided the most cost effective and efficient food and beverage service for the *Piedmont* would be self-service vending machines. The Rail Division decided to combine all “non-revenue” functions in one railcar, thus eliminating the need for and expense of separate food service and baggage cars. NCDOT’s café cars were withdrawn from service one by one for modification. The galley, cafeteria counter and display refrigeration and freezers were removed from the cars. In their place, a 28-foot-long baggage section with five bicycle racks was constructed. A 20-foot-long portion of the lounge area was converted to the vending machine area. On one side of the vending area, two state-owned full size snack machines and two full size beverage machines were installed. On this side there is also a counter that includes recycling for bottles, printed materials and cans. The vending machines are fully bolted and attached to the passenger cars so that they may withstand tipping in service or in the event of a derailment at 8 G’s of tearout force. On the opposite side of the aisle, a stainless steel counter with a small sink, self-service coffee dispensing machine and a bottled water display refrigerator were installed. The vending machine area was made wheelchair accessible. Two wheelchair locations with folding tables were installed in the lounge area.

I will now quickly go through some slides so you can better visualize the changes in our equipment.

Since transitioning to vending machine service, significant cost savings have been realized. The machines have proven very reliable with minimal downtime. Contract vending machine repair technicians are available on short notice at both ends of the Raleigh to Charlotte rail corridor. Because each NCDOT baggage/lounge car carries two snack machines and two beverage machines, redundancy assures product availability should one machine be temporarily out of service or out of a particular variety of product.

The conversion of the NCDOT café cars to combination baggage/lounge cars cost NCDOT approximately \$750,000 each. The average cost of a vending machine is \$3,500. During a typical month their sales exceed the cost of goods sold. Costs associated with bottled water and self-service coffee are covered by a 50¢ surcharge added to each Raleigh to Charlotte corridor ticket. To maintain uniform pricing between the *Piedmont* and *Carolinian*, the surcharge was also added to each *Carolinian* fare (for the Raleigh to Charlotte corridor only). Exclusive of the initial capital costs for converting the NCDOT railcars to vending machine service, NCDOT’s *Piedmont* snack and beverage service is now paying for itself. Because meals are no longer prepared on the railcar, State Health Department inspections and maintenance requirements, and their associated costs, have ended. Products in the vending machines are purchased at local warehouse clubs and stocked by our maintenance contractor. Vending machine products that are near expiration are donated to a non-profit Food Bank.

Based on recent analysis, *Piedmont* service vending machine revenue averages about \$2,700 per month. For the average month, the cost for supplies, maintenance and depreciation totals about \$2,000 per month. While we made these food service changes, our ridership has grown by 279% (from FFY2004 to FFY2013). Since initiating vending machine service in FFY2009, ridership has grown by 248%. However, it must be noted that the second daily round trip of *Piedmont* service was added in FFY2010 – and that, as opposed to food service offerings, has driven much of this growth. Given the relatively short trips times, we do not believe that the vending-style food offerings have negatively impacted our service, and we do pride ourselves in having a good cup of coffee that is made by the cup to minimize waste, I will add!

While the *Piedmont's* success story is one that we are very pleased with, we currently rely on Amtrak's food service on the *Carolinian*, which is a much longer route that operates through to the Northeast Corridor. While we do not feel that vending machine service is appropriate for such a long route (704 miles) with average trip lengths of over 300 miles, we do believe there may be opportunities for efficiencies and improved service and products. We look forward to working in collaboration with Amtrak to increase revenue and find efficiencies while improving service. For example, there is not an incentive for food service attendants to increase sales. Also, the food service car is closed for part of each trip so that employees can inventory stock during a shift change. Amtrak has indicated that point of sale systems are on the way and will prevent this practice, but to date, it continues. These are just a few of the areas we would like to look into. Also, many products often sell out, and there are limited to no measures to restock. To look into matters such as these, accurate food service revenue and cost data must be provided. Currently, only summary level estimates are made available by Amtrak. Amtrak has indicated that it cannot provide actual sales information and product cost data for the *Carolinian* route. However, based on our current agreement with Amtrak, that is based on the new PRIIA Section 209 methodology, we estimate that food service losses on the *Carolinian* for FFY2014 are believed to total approximately \$500K.

Unfortunately, the limited data we are provided by Amtrak and the processes in obtaining it does not allow us to maintain a real-time cost analysis of the riders and fares so that we get a good account of who has paid for the coffee and water surcharge on the *Piedmont*. Getting such data, much of which Amtrak designates as proprietary, is always complex and is governed by proprietary provisions that are detailed in our new Section 209 operating contract. If NCDOT had more current or real time access to this data through the Amtrak E-ticketing system while providing Amtrak the ability to protect their franchise, we could better analyze costs, expenses, revenues, and ridership between city pairs, thus providing an improved service that is partly paid for through the public sector. This would also allow us to better collaborate with Amtrak on providing the North Carolina services. While the exact amount of surcharge revenue is not known due to these data limitations, we have calculated the surcharge based on historical passenger information. Based on this calculation, we believe surcharge revenue for the *Piedmont* service, which is used to pay for water and coffee service, totaled approximately \$78K in FFY2012, or about \$6,500 per month – far in excess of the average monthly cost of approximately \$2.4K.

Vending is just one area in which North Carolina has taken steps to improve our service and find more efficient and less costly ways to provide passenger amenities. We noted the savings in capital costs by procuring and restoring used equipment to today's safety and travel standards. In addition, we provide amenities such as AC power at all seats, 4G Wi-Fi coming early 2014, and volunteer train hosts that assist riders with information in order to provide the best customer service experience possible. Also, our *Piedmont* equipment has been maintained by private contractors, who are provided benefits comparable to state employees including health insurance, at our Raleigh maintenance facility owned by NCDOT since 1995. We are very pleased with the quality of maintenance performed on our fleet and the flexibility to accommodate daily and special operations.

In the coming year, we will commission studies to find more efficiencies and enterprising opportunities with our NCDOT passenger services, including but not limited to food offerings, reservation services, joint marketing opportunities and brokered purchase of liability coverage, which continues to be a major expense for NCDOT – but is one area that Amtrak can cover without such a significant expense to states.

NCDOT has led the nation in crossing safety, constructing rail improvements – now even with local traditional highway contractors working on main line railroad projects, and providing passenger service with high customer satisfaction. Against this backdrop of innovating, learning and making rational adjustments, NCDOT continues to develop services that exceed customer expectations.

All this being said, we know that there is still much to do. As Congress prepares to reauthorize PRIIA, I hope you will look at ways to provide extra flexibility to the states – the ones now paying for the allocated cost of services as per Section 209 – and not overwhelm us with processes that keep data from public view, labor costs high and without flexibility, and amenities without competition and innovation. A 21st-century high-performing railroad service must be allowed to take advantage of competitive contracts in both cost and service delivered. This will allow states to improve the services, generate additional revenues, and close the financial gap between the fare box and service provided by the state.

Mr. Chairman, I appreciate the opportunity to provide testimony on these issues. States have innovated in food and other services to meet the needs of our customers. While we can all learn from these experiences, one size does not fit all, and a solution that works well in one state may not work in another part of the country. As Congress considers reauthorizing PRIIA, I ask that you grant more authority – and perhaps even incentives to states and Amtrak – to develop creative and cost-effective solutions. I ask for the continued support of the Subcommittee as we pursue our work, and I again offer our assistance as the body considers important issues that impact our ability to deliver a cost-effective and efficient rail passenger program. Thank you.

For more information on NCDOT passenger service initiatives, visit our web site at:

<http://www.ncbytrain.org>

or contact:

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Original restaurant-style food service.



Current vending-style food service.

