

THOMAS M. SALMON, CPA
STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

STATE AUDITOR'S SITUATION REPORT:

OBSTACLES, OPPORTUNITIES AND COMMON
OBJECTIVES REGARDING RAIL PASSAGE AND
US/CANADA RELATIONSHIP

FEBRUARY 2011

THOMAS M. SALMON, CPA
STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

TO: Sen. Richard Mazza, Chair, Senate Committee on Transportation
FROM: Thomas M. Salmon, CPA, Vermont State Auditor
DATE: February 11, 2011
SUBJECT: Rail Information for Transportation Committee Chairs and Members

Over the past four years, our office has transformed into a performance audit organization. One of our areas of interest has been rail. I have enclosed the highlights page from our rail audit in 2008 that many of you have seen. Follow-up work to this audit has been completed recently.

Last May, I was approached by a Canadian official who has a strong commitment to improve commerce and rail travel between our two countries. I met him while attending a Council of State Governments event in New York City where Governor Douglas was a presenter.

Attached to this memo are relevant documents that I hope the committees will find informative. I wanted to get this to you as soon as possible as I am aware that important Vermont-Canadian meetings are planned for next week.

If you have any questions, do not hesitate to contact me. We are operating at a time in history where we can not afford to under-communicate.

Sincerely,

Thomas M. Salmon CPA

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Vermont State Auditor

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TO: Rep. Patrick Brennan, Chair, House Committee on Transportation

FROM: Thomas M. Salmon, CPA, Vermont State Auditor

DATE: February 11, 2011

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**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

February 10, 2011

Rep. François Rebello, Député de La Prairie
Hôtel du Parlement
1045, rue des Parlementaires
3e étage, Bureau 3.75
Québec, CANADA
G1A 1A4

Dear François,

Thank you for joining Vermont officials in Montpelier to continue this joint project to increase commerce and rail travel between our countries. We appreciate your commitment to this most important matter, as border issues in general and rail issues in particular require both patience and critical thinking. Hopefully, a joint effort with sustained attention will allow us to work together to address such obstacles and pursue opportunities.

The following is a summary of our meeting:

On Friday, February 4, a meeting was held at the Pavilion Office Building in Montpelier, VT, among members of Vermont State government, a representative of the National Assembly of Québec and a management consultant from Canada who specializes in rail issues.

Representing Vermont:

Governor Peter Shumlin
Lt. Governor Phil Scott
State Auditor Tom Salmon, CPA
Secretary of the Agency of the Administration Jeb Spaulding
Secretary of the Agency of Transportation Brian Searles
VTrans Rail Division Director Joe Flynn
SAO Audit Manager Steve Vantine

Representing Québec:

Honorable François Rebello, Député de la Prairie, Assemblée nationale du Québec
Mr. Xavier Allaire, Management Consultant

After introductions, Mr. Rebello outlined the initiatives he has been leading on behalf of the Québec Provincial Government in seeking stronger working relationships between Québec, New York and the New England states regarding passenger rail service. Mr. Rebello believes it is very important to focus on improving the status of international passenger rail travel with the goal of ultimately establishing high-speed rail between the U.S. and Canada.

He outlined the mutual economic and cultural benefits that will accrue if the parties would restore rail service directly to Montreal via Amtrak's *Vermont*, which currently operates on the eastern side of Vermont and provides daily service between Washington, D.C., and St. Albans, VT. Passengers traveling to Montreal must disembark in St. Albans and are then bussed to Montreal's Central Station.

Mr. Rebello provided a map of the existing train routes, which link Montreal with New York City, Boston and Portland, Maine. All of the routes are currently in service with the exception of a rail line between Concord, NH, and White River Junction, VT. The Concord to White River Junction line is not in service and would have to undergo a major rebuilding effort requiring hundreds of millions of dollars. There was discussion about the difficulties in achieving this goal, including the probable reluctance of New Hampshire to fund a project of this magnitude. However, if the New Hampshire line found the political will and financial support to become reality, it could foster great opportunity.

Governor Shumlin expressed his interest in establishing high-speed rail in Vermont and New England, and in maintaining the excellent relationship Vermont enjoys with the Province of Québec and the Canadian government. He mentioned the importance that President Obama had placed on establishing high-speed rail in the United States and in the area referred to as the Northeast Corridor. Governor Shumlin stated that one of major initiatives of his new administration is to bring high-speed rail to the state and establishing additional passenger rail service on the western side of the state from Rutland to Burlington (and onward to Montreal.). The challenges in accomplishing this will be mostly related to the financial commitments required as the existing western rail lines would have to be improved and/or upgraded. He emphasized again that he considers this one of his priorities.

There was discussion about the utilization of the Burlington International Airport by the citizens of Québec and the ongoing growth of the Plattsburgh, NY, airport. Secretary of the Agency of Transportation Brian Searles spoke briefly about the status of these two competing facilities.

There was additional discussion regarding the length of time it takes to travel between Montreal, New York City and Boston and the issue of border and customs examinations at the border crossing, which adds to traveler dwell time. VTrans Rail Division Director Joe Flynn outlined some of the current activities under way on the New York side of Lake Champlain, where the Amtrak *Adirondack* operates and terminates in Montreal. To eliminate this dwell time, a cooperative effort involving multiple parties is under way to move the customs examinations location from the New York side of the U.S./Canadian border to Montreal's Central Station. If this plan comes to fruition, Vermont may be able to leverage this to extend the *Vermont*'s service directly to Montreal.

The details to these efforts are as follows:

- Amtrak/NYS DOT/VIA Rail/CN Rail/CBSA in a cooperative effort have identified space in Central Station that could be reconfigured to meet Canada Border Services Agency requirements for a secure customs and immigration inspection facility for the northbound *Adirondack* arriving in Montreal.
- This facility would initially serve only Canadian inspections for passengers entering Canada.
- Amtrak has provided CBSA a preliminary schematic plan for the facility.
- CBSA has given preliminary conceptual concurrence although final concurrence must await plans that are more detailed.
- Amtrak has also attempted to include sufficient space to accommodate outbound U.S. Customs and Border Protection inspections in the plan and has requested USCBP requirements for such a facility.
- This information has not been forthcoming and it is not known whether USCBP would be agreeable to it.
- For passenger safety and service reasons, Amtrak opposes the idea of doing full offloads of passengers and baggage on the Canadian/U.S. border.
- Both agencies believe that a full offload is essential to the performance of their duties.
- CBSA is agreeable to performing these functions in Montreal Central Station as they do in Vancouver Pacific Central Station if Amtrak, on behalf of New York State, built a facility meeting their requirements and operated the *Adirondack* non-stop "closed door" from the border into the secure compound in Central Station.
- The initial estimate to build the facility is approximately \$3 million along with an estimated annual \$1.5 million lease for the required space on both the track and concourse levels.
- These estimates are in U.S. dollars and are very preliminary.
- NYSDOT has provided a draft agreement to Amtrak for \$100,000 for Amtrak to hire Canadian-licensed architects to validate the feasibility and cost estimates for the conceptual plan.
- Amtrak would also be authorized to enter into discussions with the property owner on a possible lease agreement.
- The agreement between NYSDOT and Amtrak should be finalized any day now pending any unforeseen circumstances.
- The original deadline for providing a new facility to CBSA was November 2010 but CBSA has been satisfied with our progress up to now and seems agreeable to cooperate in this effort as long as Amtrak and NYSDOT continue to show regular progress toward meeting their facility requirements.
- In the best-case scenario, if funding is identified, construction contracts procured, and lease agreements signed, completion could be in late 2012.
- If the facility becomes operable, the northbound *Adirondack* could run from the border to Central Station eliminating approximately 1 hour of schedule time for the current border inspection stop.
- The St. Lambert stop would also be eliminated to comply with the CBSA requirement for closed-door operation into the secure "sterile" compound in Central Station.
- This would be similar to existing "Amtrak Cascades" operation northbound into Vancouver, British Columbia.

- Amtrak is not aware of any effort to amend the air pre-clearance treaty to provide for USCBP inspections of southbound trains to the U.S. in Canada prior to departure; but the U.S. State Department and the Canadian Department of Foreign Affairs and International Trade know that this needs to be done before USCBP could do pre-clearance for rail passengers in a manner similar to that of air travelers.
- Before those negotiations can begin, the parties need to agree on the solution. Amtrak is making efforts to reach that agreement.

There was discussion of the upcoming meeting between government officials from Vermont and Québec. Mr. Rebello offered his services to facilitate arranging meetings with various Québec officials including Québec Premier Jean Charest. At the end of meeting, Auditor Salmon offered to draft a letter summarizing the meeting and promised to forward it to all parties attending.

Overall, it was a productive and informative event and discussions will continue to achieve the goals of maintaining the relations between Québec and Vermont and improving and expanding passenger rail service.

May this document help communicate the situation, and arrive in advance of the important meetings scheduled next week. We are very hopeful that this strategic and focused effort will be successful in attaining the opportunities both countries deserve. Together we can overcome any obstacle to benefit the people. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Salmon CPA". The signature is written in a cursive, flowing style.

Thomas M. Salmon, CPA
Vermont State Auditor

Highlights: Report of the Vermont State Auditor

Agency of Transportation Rail Section Contract Audit

(December 5, 2008, Rpt. No. 08-12)

Why We Did This Audit

At the request of AOT management, we agreed to review the administration and oversight of Rail Section contracts and other agreements with the general goal of assessing performance and recommending steps for improvement.

What We Recommend

We made a variety of recommendations pertaining to contract awards, oversight and administration, adherence to laws and Federal and State regulations and fiscal management.

We recommended that AOT strengthen and clarify the language within its agreements, improve the oversight of contracts, enforce penalties for violations of the terms and conditions of its contracts and lease agreements, and provide for better fiscal management of its contractors and service providers.

Findings

Based upon the results of our examination of four contracts, two leases and the resolution of the previous questioned costs and recommendations of other auditors, it is our opinion that there is inadequate oversight by AOT of its Rail Section contracts to ensure the protection of State resources.

The State has entered into long-term lease agreements and project contracts which do not protect the best interests of the State. We believe that the language in these documents is ambiguous in some key areas and, coupled with weak oversight by AOT's Rail Section, it increases the risk of potential abuse and non-compliance by the contracted railroads.

Auditors noted that:

- The AOT Rail Section entered into a construction contract for \$4,677,727 without putting the contract out to bid and without the approval of the Secretary of the Agency of Administration.
- \$82,401 in State funds from salvage proceeds is being held by the Railroad for offset against future invoices rather than being returned to the State.
- Railroads have been allowed to pay lease revenue to the State up to 6 months late without assessment of interest, as allowed by contract, and without verification of the amount of revenue upon which the lease fee is based. AOT did not assess interest of approximately \$37,000 on late payments.
- AOT lacks a process to resolve audit findings and has yet to collect or resolve approximately \$436,000 in questioned costs resulting from past audits.
- Insurance coverage held by the subcontracted Railroads is not verified and may be significantly less than the amount required of other vendors through the State's Risk Management Division.

AOT and the rail contractors we reviewed are not adhering to a number of critical State policies and regulations which are designed to ensure cost-effective rail operations. As Vermont aspires to increase the economic and environmental benefits of rail activity in the State, it is imperative that AOT adhere to policies and procedures that promote competitive bidding and diligent oversight of rail revenue and expenditures.

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AGENDA

Windjammer Restaurant
June 21, 2010, noon

1. Introductions
2. Background history and purpose of meeting
3. Canadian Authority Structure/Vermont Authority Structure
4. What does success look like regarding rail and other joint opportunities?
5. What are the current obstacles and exact situation?
6. Strategies and next steps
7. Adjourn

Monsieur Francois Rebello, Député de la Prairie, Province of Quebec
Sen. Phil Scott, Senate Transportation Committee
Rep. Richard Howrigan, House Committee on Transportation
Mr. Joe Flynn, Rail Division Director, Agency of Transportation
Mr. Joe Juhasz, Deputy State Auditor
Mr. Steve Vantine, Audit Manager (Rail Audit supervisor)

THOMAS M. SALMON, CPA
STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

July 28, 2010

Rep. François Rebello
Depute de La Prairie
55, rue Sainte-Pierre, Bureau 115
St. Constant, Quebec
CANADA, J5A 1B9

Dear Rep. Rebello,

It was a pleasure to meet with you on June 21, 2010, in South Burlington, Vermont, to continue our discussion about the important matter of Canada-U.S. passenger rail travel. This meeting was a follow-up to our meeting in New York City in May when Vermont Governor James Douglas introduced us at the Economic Summit put on by the Council of State Governments (CSG).

Also attending our meeting were:

Mr. Joseph Flynn, Transportation Rail Director, Vermont Agency of Transportation
Mr. Joseph Juhasz, Deputy State Auditor
Mr. Stephen Vantine, State Audit Manager
Mr. Xavier Allaire, Management Consultant
Vermont State Senator Phil Scott, Vice Chairman, Vermont Senate Transportation Committee
Vermont State Representative Richard Howrigan, Vermont House Transportation Committee

It is very important that we craft next steps together to address the very real economic opportunity between our two regions. Part of my mission as state auditor is to be a catalyst for good government and promote effectiveness. I'm also very committed to thoughtful government reform.

One of the problems that we agree must be addressed is the border security issue. As I write this, according to a newspaper story by the Associated Press on high speed rail, officials are to meet in Hartford, Connecticut, tomorrow to update the public on where the projects stands. "Vermont, Massachusetts and Connecticut have received a total of \$160 million in federal stimulus money to link high speed trains....(including) Vermont and Montreal."

The letter you shared with us from Amtrak about border concerns related to custom facilities and changing crews was consistent with the AP article that stated “security issues are obstacles for trains crossing from the United States into Canada.”

Clearly, our two countries need to engage in a process that will resolve these issues. I have asked the Vermont Director of Rail Mr. Flynn to begin to compile a quick “situation report” from Vermont’s perspective to list:

1. Problem/issues
2. Status
3. Actions required to foster forward progress.

I recommend someone on the Canadian side do the same prior to our next meeting to create a path for success.

I appreciate your commitment to the prosperity and advancement of Vermont and Canada. To be successful, the teamwork and communication will require sustained attention by all. I will speak to you very soon.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Salmon CPA". The signature is written in a cursive, flowing style.

Thomas M. Salmon, CPA
Vermont State Auditor

cc: Hon. James H. Douglas, Governor

June 9, 2010

Honorable Francois Rebello
Depute de La Prairie
Bureau de circonscription
55, rue Saint-Pierre
Bureau 115
Saint-Constant (Quebec) J5A 1B9
Canada

Dear Mr.Rebello:

I would like to thank you for coming to Amtrak's offices in New York City on May 21st to meet with myself as well as representatives from Amtrak's Planning, Operations, and Government Affairs Departments. I believe we all benefitted from our exchange of interests, ideas, and plans.

To recap, you expressed strong support of greatly improved rail passenger service between Montréal and points south to the US because of the mutual economic, energy, and global warming benefits derived from a modal shift from auto and air to rail. You are interested in additional improvements to conventional rail services with possible new Quebec side investments in rail infrastructure. You are also anticipating practical and efficient means to limit the travel time such as reducing the one hour waiting time at our customs/immigration inspection points. You also want to develop an overnight train service with sleeping car service to make travelling more convenient for business travel, and moreover in the near future to set up the *Adirondack* and/or *Vermont* routes for higher speed rail service. In doing so, you understand that, as a practical matter, these international improvements must involve a fair financial involvement from the Province of Quebec and / or the Canadian Federal Government, if they are to go forward.

Amtrak began its comments by noting its efforts to maintain the current New York State supported service, the *Adirondack*, which operates daily between New York City and Montreal. We are now working with the Canada Border Services Agency to meet their mandate for off-train examination facilities, hopefully within our current terminus of Central Station. It is our intent to secure an international agreement to also allow for pre-examination of passengers south to the US with US Customs & Border agents utilizing the same facilities in Montreal.

As the *Adirondack* is a state -supported Amtrak service, New York State is currently responsible for the costs of this examination facility. We also noted that under recent Federal Legislation titled the Passenger Rail Investment and Improvement Act, Section 209 states Amtrak, the states, and the Federal Railroad Administration must develop a standardized methodology for establishing and allocating costs (operating and capital) for state supported and corridor routes. This methodology must be developed by October 16, 2010 and may result in increased cost to New York State for both the *Adirondack* and the entire corridor from New York City to Niagara Falls. The ability of New York State to pay for this service in view of increasing costs is not without question.

We discussed the feasibility of the establishment of an overnight train from Montreal to New York City and possibly down to Washington. The former would be on the existing route of the *Adirondack*, the latter on the route of the *Vermont*, which currently operates daily service between Washington, D.C. and St. Albans, VT. The *Vermont* is also an Amtrak state-supported service as the State of Vermont provides the funding to operate this train, so any change in service would be at the state's discretion. We noted a lack of equipment, especially sleeping

cars, to operate such a service on either route. In addition, to extend the *Vermont* north of St. Albans, Vermont to Montreal would require costly upgrades to a rail bridge in Vermont and Canadian labor union support to allow the operation of the train with the American crew all the way to Montreal as is currently the case with the *Adirondack*. With regard to the reestablishment of a Montreal - Boston service it was stated that the most direct route would require the rebuilding of the line from Concord, New Hampshire to White River Jct., Vermont.

The current Montreal – New York City service will benefit from infrastructure projects now underway. A \$91.2 million High Speed Rail grant will rebuild the second track between Albany-Rensselaer and Schenectady, New York as well as improve interlocking switches. Combined, these improvements will significantly improve the reliability of service. In addition, a \$3million investment in a new passing track at Saratoga Springs, New York will also improve the on-time performance of the *Adirondack*.

The infrastructure improvements noted above, and the elimination of border examination dwell times, could reduce the current 11 hour schedule between Montreal and New York City by at least one hour and make the schedule much more dependable. With regards to your desire for an overnight train, a 10 hour schedule for an overnight train leaving Montreal at 9:30PM and arriving in New York at 7:30 appears to be possible. This service might prove to be a reliable and convenient alternative to air, bus and auto travel. However, this service option must first be subjected to rigorous marketing and cost analysis to determine the feasibility. In order for such a feasibility study to be undertaken a funding source would also have to be identified

With regard to the expansion of international conventional rail passenger services, the fundamental question remains as to which entities will pay for the required capital and operating costs. Amtrak currently does not have the financial means to either initiate or operate these new services.

Concerning high speed rail service between Montreal and New York City or Boston, all of us agreed that the financial costs are huge and funding commitments must be made. In addition, there are many questions to answer regarding which route to advance first and what the most feasible routes between the city pairs are. In short, a tremendous amount of work lies ahead in order to implement such service.

In summation, Amtrak shares a strong interest in exploring with you and Quebec Province ways that might be developed to advance the implementation of additional conventional international rail passenger service while also exploring the high speed option as well. We look forward to seeing you at the New York State High Speed Rail Summit meeting in Albany on June 14th and continuing our dialogue afterwards as well.

Sincerely,

Peter

Peter D. Cohen
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