

**To:** CapMetro Board of Directors  
**From:** Andy Skabowski, EVP – Chief Operating Officer  
**Date:** May 8, 2026  
**Subject:** CapMetro Commuter Rail Operations

The purpose of this memo is to provide information to the CapMetro Board ahead of a board request to authorize the President and CEO to negotiate and execute a contract for rail maintenance of way and signal systems management with Rio Grande Pacific Corporation (Rio Grande). This item will be presented to the Board for consideration during the May 18, 2026, Board Meeting and correlates to other service transitions needed to support commuter rail service, including bringing certain functions into CapMetro direct management.

CapMetro believes these changes are necessary to best support customer experience and long-term financial sustainability of commuter rail service.

### **Overview of Procurement & Service**

CapMetro owns approximately 162 miles of rail right of way, operating commuter rail as CapMetro Rail along the 32 mile-long Red Line, and freight rail operations between Llano and Giddings, Texas. Commuter rail has been operated by Herzog since 2009, through a contract that includes rail maintenance of way (maintaining the right of way and tracks), rail signal systems, operations, dispatch and vehicle maintenance. Freight rail is operated by Watco as Austin Western Railroad (AWRR).

The contract with Herzog expires at the end of calendar year 2026. CapMetro published a solicitation for a new contract in early 2026. The solicitation was structured so that CapMetro could contract for all or some of the needed operational elements based on the needs of the Agency.

### **Changes to Structure of Commuter Rail Service**

#### Maintenance of Way and Signal Systems

On May 18, the CapMetro Board will consider an item authorizing a contract for management of rail maintenance of way and signal systems. These two services require extensive specialized expertise and equipment, and continuing to have these services provided by a vendor with ready access to such equipment and the variety of necessary expertise is in the best interest of CapMetro and the community. Rio Grande has experience providing maintenance of way and signal systems management, and CapMetro is confident in the service they will provide through this contract.

Approximately 30 Herzog employees on the maintenance of way and signal systems teams will be impacted by the transition

### Operations, Dispatch, and Vehicle Maintenance

In January 2027, CapMetro intends to absorb several of the rail oversight and operational functions that are currently provided through Herzog in order to best support service and our customer experience. This will entail direct employment and management of rail dispatch, operations (including train engineers and conductors for commuter rail service) and train vehicle maintenance staff, totaling fewer than 100 full-time equivalent employees. The transition does not affect freight rail operations or those employed by Watco.

By providing direct employment of these critical functions, the Agency will have more control over service delivery, providing CapMetro the opportunity to make more nuanced adjustments to various aspects of service (e.g., schedules, standard operating procedures, training, etc.) without cumbersome contract modification processes required for each change. We expect this flexibility to enable gradual improvements to the customer experience while directly managing the costs associated with each adjustment.

This transition will take time and resources to complete. CapMetro must become authorized by the Federal Railroad Administration (FRA) to provide direct operations of commuter rail, a process that will take several months. Additionally, CapMetro will require additional outside services to further support vehicle maintenance and provide insurance and claims handling for commuter rail operations. Finally, CapMetro will develop a process to hire commuter rail employees, including existing Herzog team members who are interested and meet eligibility requirements and apply. Commuter rail employees hired by CapMetro will be under the same benefit structure as existing CapMetro employees. Initial work on these items is underway to ensure CapMetro is ready to transition by the end of 2026.

Based on response to the open procurement and review of recent industry pricing and our own contract oversight for the last several years, costs for commuter rail service were projected to go up regardless of the outcome of the procurement process. By bringing certain functions into CapMetro, we anticipate these costs increases to be more financially sustainable for the Agency.

Further, as CapMetro manages the next several years of projects with rail impacts, such as the Plaza Saltillo grant-funded project, commissioning the new Uptown ATX/North Burnet station, and I-35-related service disruptions, this direct oversight will allow the agency more flexibility to meet the needs of the community and balance resources internally.

## **Next Steps**

Though some team members wearing the CapMetro uniform are not direct CapMetro employees, we are all one team working to support the community. CapMetro does not believe this change will be noticed by customers on a day-to-day basis but do believe more direct oversight and control of rail operations will provide enhanced customer experience and position CapMetro to make necessary adjustments to maximize the community benefit of our commuter rail system in the years ahead.

CapMetro will continue working through processes to ensure an effective transition ahead of the end of the Herzog contract in December. This includes implementing the steps above related to hiring, solicitations for supplemental services, and engaging with the FRA. Additionally, CapMetro will deploy robust internal communications to support CapMetro and Herzog team members during this transition.

CapMetro will be available to answer questions about the maintenance of way and signal systems contract on May 18 during the Board Meeting. Additionally, there are two additional contracts to support rail service on the May 18 Board agenda; one related to maintaining obsolete components on the DMU fleet, and one related to facilitating CapMetro's long-term right of way maintenance needs. Both contracts are proceeding as part of CapMetro's current rail responsibilities and are not impacted by the proposed contract for maintenance of way and signal systems, nor the planned structural changes to operations, dispatch and vehicle maintenance.

Board Members with questions regarding this information should contact [Ed.Easton@capmetro.org](mailto:Ed.Easton@capmetro.org).