

AGENDA ITEM 9-K
ACTION ITEM

TO: CHAIRMAN KAUFFMAN AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: AUGUST 17, 2007

SUBJECT: REFERRAL OF PRELIMINARY FY 2009 VRE OPERATING AND CAPITAL BUDGET TO THE COMMISSIONS

RECOMMENDATION:

The VRE Operations Board is being asked to authorize the Chief Executive Officer to refer the Preliminary FY 2009 VRE Operating and Capital Budget to the Commissions for their consideration, and that the Commissions, in turn, refer these recommendations to the jurisdictions for their review and comment.

BACKGROUND:

In accordance with the VRE Master Agreement, which outlines the process for annual budget approval, the preliminary FY 2009 VRE Operating and Capital Budget is attached for review. This draft budget follows the adopted guidelines of the Operations Board developed in concert with jurisdictional Chief Administrative Officers (CAO). Because of the uncertainty concerning the availability and use of the \$25 million designated for VRE in HB 3202, two versions of the preliminary FY 2009 budget are being presented.

Option #1 (base budget) - assumes no portion of the \$25 million is available in FY 2009: This version of the preliminary budget totals \$75.4 million, of which \$5.02 million is currently unfunded (assuming no increase to local subsidy or fares); this represents a substantial unfunded amount for the second year in a row. As in the past, VRE will submit a balanced budget to the jurisdictions in November so that it can be evaluated prior to its submission to the Operations Board in December.

The major causes of the current gap between revenue and expenses are outlined in the chart below.

Description	Amount
Shift of federal funds back to capital budget (one-time shift to operations in FY 2008)	\$1,570,000
Additional debt service for 50 railcar purchase	900,000
Net cost of adding four trains (two round trips)	840,000
Net increase to Amtrak and equipment operations	710,000
Contribution to operating reserve - other	370,000
Increased locomotive maintenance	400,000
Other costs net of revenue increases	230,000
TOTAL	\$5,020,000

Both revenue and expenses are still under review and these projections are expected to change considerably over the next several months. The assumptions used in preparing the preliminary draft are as follows:

1. Fare revenue of \$21.7 million and average daily ridership of 15,400 based on expanding service to 34 daily trains. Ridership is estimated at 14,700 with service at the current level of 30 daily trains. The net cost of the additional trains is \$840,000. Average daily ridership in FY 2007 was 13,982.
2. Contractually set increases in operating expenses of 4% for CSX, Norfolk Southern and Amtrak.
3. Increase in Insurance Trust Fund contributions from \$4.95 million to \$5.1 million, which reflects a premium cost of \$4.3 million and a contribution of \$1.2 million to rebuild the trust fund balance, net of interest earnings and estimated losses.
4. Increase in state capital match funding from a match rate of 23% to a match rate of 40%, based on conversations with VDRPT. **This projection will continue to be reviewed over the next several months.** Each 10% increase to the match percentage equates to an additional \$1.1 million of grant funding.
5. Increase in state formula funding for operations from the \$8 million received in FY 2008 to \$9.2 million. **This projection will continue to be reviewed over the next several months.**

6. Fuel expenses of \$4.3 million due to diesel price increases and the addition of two trains. Cost per gallon is estimated at \$2.38.
7. Continued funding of the VRE capital program, which includes mid-day storage, track lease improvements, rolling stock modifications, Crossroads Yard expansion, and \$1.4 million for locomotive procurement.
8. Financing costs for the 50 railcars of \$3.85 million in FY 2009, the first year of nearly full costs for this purchase.

The FY 2009 Operating and Capital Budget includes:

1. No change in VRE staffing.
2. No provision for possible additional federal formula funding and the accompanying need for a local match for these funds.
3. No provision for the impact of additional jurisdictions joining PRTC/NVTC and the possible effect on future subsidy allocations.

Option #2 - assumes the \$25 million from HB 3202 is available for priority projects: The availability of the \$25 million and its appropriate use is still under consideration. For purposes of Option #2 of the preliminary budget, staff is proposing the funds, if available, be used for the following priority projects in FY 2009. A list of priority projects for a five year period is attached.

Description	Amount
Locomotive acquisition (see discussion below)	\$13,775,000
Restoration of insurance trust fund balance and scheduled payment	6,650,000
Net cost of adding four trains (two round trips)	840,000
Fuel costs (30 trains)	3,735,000
TOTAL	\$25,000,000

This preliminary option totals \$90.71 million and results in a subsidy **reduction** of \$4.65 million for a total local subsidy of \$8.7 million, a level similar to that for FY 2007. The budget provides funding for the restoration of the insurance trust fund and the initial phases of the locomotive acquisition project. In all other ways, the budget is identical to Option #2.

Locomotive Acquisition

VRE has received state funding of \$15 million for the purchase of locomotives; these funds can only be utilized if matching funds of \$3.75 million can be identified from local sources. Current plans for locomotive acquisition are summarized in the chart below, assuming the availability of funding from the NVTA bond issue and the use of HB3202 funds as presented in Option #2. Budget Option #1 does not currently provide sufficient funds for the purchase of any additional locomotives or match funding for the state allocation.

		Funding	Locomotives
FY 2008	State funding + Mafersa proceeds	\$8,750,000	2
	State funding + NVTA bond issue	11,750,000	3
FY 2009	HB3202 priority projects	13,775,000	3

DISCUSSION:

Budgeting for FY 2009 continues to be difficult because of the major uncertainties in state funding levels and the reassessment of the ridership projections. In addition, fuel price levels and volatility, insurance costs, the first year of full debt service funding for the new railcar purchase, and contractual increases in operating costs continue to exert an upward pressure on expenses. The general expense factors that would affect the FY 2009 budget were previously identified in the FY 2008 six-year plan.

More clarity will be achieved as we transition to the fall and can better estimate ridership and state transportation funding. In past years, funding shortfalls have been resolved through expense decreases, service reductions, and increases to fare rates and jurisdiction subsidies. For FY 2009, the relationship between fare rates, service and ridership will need to be considered more explicitly.

The factors that affect the FY 2009 preliminary budget will also have an impact in FY 2008. A report on this impact will be brought to the board at the end of the first quarter of the fiscal year.

NEXT STEPS:

As a part of the continuing budget review with the CAO Budget Task Force this fall, additional funding solutions will be explored. The particular areas that will be addressed include:

- A continued assessment of ridership projections based on the impact of efforts to improve on-time performance and other factors.
- A review of potential increases in state operating and capital funding as a result of the passage of the transportation bill.
- A continued assessment of how the NVTA \$25 million will be utilized.
- Continued analysis of alternatives to reduce overall cost of operations
- The impact of any need for increases in fares and/or local subsidy.
- Development of additional preliminary budget options for review by the CAO Budget Task Force as expenses and revenues are adjusted.

The cumulative affect of the above analysis and evaluation will result in a balanced budget in November, which can be evaluated by all jurisdictions prior to submission to the Operations Board in December 2007.

FISCAL IMPACT

The current budget shortfall is estimated at \$5.02M for Option #1. Option #2 results in a decrease to local subsidy requirements. Additional draft budgets will be formulated during the fall and reviewed with the CAO Budget Task resulting in a balanced budget by November 2007.

Attached are the following:

- FY 2008 Source and Use Statement (Option #1 and Option #2)
- Summary FY 2008 Preliminary Budget (Option #1 only)
- FY 2008 Six Year Financial Plan (Option #1 only)
- Priority projects for the use of NVTA funding (Option #2 only)

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FROM: DALE ZEHNER
DATE: AUGUST 17, 2007
RE: REFERRAL OF PRELIMINARY FY 2009 VRE OPERATING AND
CAPITAL BUDGET TO THE COMMISSIONS

RESOLUTION
9K-08-2007
OF THE
VIRGINIA RAILWAY EXPRESS
BOARD OF DIRECTORS

WHEREAS, the VRE Master Agreement requires that the Commissions be presented with a preliminary fiscal year budget for their consideration at their respective September meetings prior to the commencement of the subject fiscal year; and,

WHEREAS, the VRE Chief Executive Officer has provided the VRE Operations Board with the preliminary FY 2009 Operating and Capital Budget within the guidelines developed in concert with the jurisdictional Chief Administrative Officers; and,

WHEREAS, staff recommends a budget built on an average daily ridership of 15,100 average daily riders; and,

WHEREAS, subject to the direction provided by the Operations Board, the budget will be updated with additional ridership and cost data and further refined through the CAO Budget Task Force review during the fall of 2007.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board refer the preliminary FY 2009 VRE Operating and Capital Budget to the Commissions for their consideration; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommend that the budget be forwarded to the jurisdictions for further formal review and comment; and,

BE IT FURTHER RESOLVED THAT, VRE staff is directed to consider and address comments by the jurisdictions and to forward a final recommended budget to the VRE Operations Board at the December 2007 meeting for consideration and referral to the Commissions for adoption in January 2008.