

AGENDA ITEM 9-A
ACTION ITEM

TO: CHAIRMAN KAUFFMAN AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: DECEMBER 21, 2007

**SUBJECT: REFERRAL OF THE REVISED FY 2008 AND RECOMMENDED
FY 2009 VRE OPERATING AND CAPITAL BUDGET OPTIONS
TO THE COMMISSIONS AND LOCALITIES**

RECOMMENDATION:

The VRE Operations Board is being asked to adopt the revised FY 2008 budget and the recommended FY 2009 VRE Operating and Capital Budget options and refer them to the Commissions for their consideration and subsequent referral to the jurisdictions for their formal review and adoption. Because of the uncertainty of HB 3202 funding, staff has prepared two budgets; one referred to as the "base" budget which excludes the HB 3202 funding; the other referred to as the "HB 3202" budget, which includes VRE's recommendation for use of the \$25 million included in the legislation.

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 was submitted for review at the August VRE Operations Board meeting. Since that time, it has been discussed at numerous meetings of the CAO Task Force. The CAO Task Force met on December 6th to present their final recommendations and discuss VRE responses to those recommendations. The CAO Task Force recommendations are presented under separate cover. In addition, VRE staff met with staff from the NVTA jurisdictions to discuss the use of the HB 3202 funds.

DISCUSSION:

This document follows the adopted guidelines of the Board, developed in concert with jurisdictional chief administrative officers.

Option #1 (base budget) – assumes no portion of the HB 3202 (\$25 million) is available in FY 2009:

The major assumptions in the “base” budget are:

- Continuation of the 30-train operation
- Projection of an average daily ridership of 14,700 passengers
- Projected fare revenue of \$20,858,015, with no change to fare rates.
- Capital match funds from the State of 40% of the non-federal share
- State operating funds of \$9.2 million.
- Restoration of the balance in the Insurance Trust Fund to the \$10 million level over a several year period.
- Jurisdictional subsidy of \$17,908,176.

The capital budget includes the following system capital initiatives for FY 2009:

- Facilities infrastructure - \$600,000
- Broad Run maintenance - \$2,808,000
- Fare collection upgrade - \$250,000
- Rolling stock modifications - \$1,200,000
- Fredericksburg Rail Station - \$679,000
- Capitalization project - \$1,000,000
- Capital fleet expansion - locomotives - \$1,431,000

The budget requires additional funding for FY 2009, after various expenditure decreases, of \$4.5M. The primary causes are noted below:

- Shift of federal funds back to capital budget (FY 2008 shift to operations): \$1,570,000
- Net additional debt service for full year of payments for the 50 railcar purchase: \$900,000
- Net increase to Amtrak and equipment operations: \$1,430,000
- Increased locomotive maintenance: \$400,000
- Projected fuel increase: \$140,000
- Increase to insurance payment: \$325,000

Option #2 (HB 3202) – assumes the \$25 million from HB 3202 is available for priority projects in FY 2009:

The major assumptions in the “HB 3202” budget are:

- Service expansion to 32 trains in January 2009 with:
 - Reinstatement of northbound Manassas train 334 (10:00 am departure) and southbound 8:00 pm train
 - Northbound 4:45 am Fredericksburg train, which eliminates counter flow midday non-revenue train 312. Add late night bus service from Backlick to Fredericksburg line stations.
- Projection of an average daily ridership of 15,400 passengers
- Projected fare revenue of \$21,351,063, with no change to fare rates
- Additional \$17,177,000 contributed to the purchase of locomotives
- Restoration and full funding of the Insurance Trust Fund to \$10 million in FY 2009
- Capital Cost of Contracting in the amount of \$1,177,000
- Jurisdictional subsidy of \$12,733,175, a decrease of \$645,979 from the FY 2008 level.

The chart below summarizes the proposed use of HB 3202 funds in the FY 2009 budget, if available.

Description	Amount
Locomotive acquisition	\$17,177,000
Insurance Costs	6,600,000
Match for Gaines-Haymarket (PWC)	173,000
TOTAL	23,950,000

FISCAL IMPACT

As indicated above, the base budget requires a subsidy increase of \$4,529,022 compared to the FY 2008 subsidy. The HB 3202 budget provides for a subsidy decrease of \$645,979 compared to the FY 2008 subsidy and provides funding for additional locomotives and the restoration of the Insurance Trust Fund balance in FY 2009. Both budget options permit VRE to remain focused on its primary goal of quality service for the entire rail system.

The budget includes a six-year financial forecast for the period FY 2009 through FY 2014 for both options. The base six-year forecast indicates that additional funding will be required to address base program needs, which assumes VRE will reach 34 trains by 2014. The CIP identifies over \$500 million of unfunded

capital needs for the period FY 2009 through FY 2014. If a substantial portion of this funding is not identified, the planned increase to 32 trains will not be possible. The HB 3202 six-year financial forecast indicates that a continuing commitment of HB 3202 funds will be required to address program needs.

CAO BUDGET TASK FORCE

The Chief Administrative Officer's Task Force recommendations are summarized below and described in more detail in the budget materials. The Task Force recommends:

- A fare increase of 3%, which provides estimated additional revenue of approximately \$650,000
- That the costs of any additional trains be shared through the allocation formula set forth in the VRE Master Agreement
- The use of \$17,177,000 in NVTA funding to purchase four locomotives
- That all NVTA funding received in FY 2008 be used to re-capitalize the insurance trust fund but that any subsequent contributions necessary to maintain the trust fund minimum balance are to be allocated through the allocation formula set forth in the VRE Master Agreement.
 - CAO's recommend that \$6 million in NVTA funding in FY 2008 and \$4 million in FY 2009 and FY 2010 be used to recapitalize the Insurance Trust Fund. At the end of FY 2010 VRE's insurance trust fund balance would be approximately \$21.4 million. These would be one-time payments.
 - These payments reduce VRE's on-going insurance costs in FY 2009 to approximately \$3.8 million per year which would be shared by all jurisdictions through the Master Agreement formula
- That VRE develop performance measures which track the higher level of railcar maintenance now provided at the outlying yards and that this information be shared periodically with the Operations Board and jurisdictional staff.
- That late night bus service be provided to the Fredericksburg line VRE stations using two buses instead of three. (This recommendation only applies if service is added.)
- Inclusion of an additional spring marketing campaign. The Task Force conditionally supports this request because of the difficulty of ascertaining the impact of advertising on ridership, and recommends the VRE develop some measures that track this correlation.
- Lower on-going insurance costs plus additional fare revenue result in jurisdictional subsidy increasing \$2,380,601 from \$13,379,154 in FY 2008 to \$15,759,755 in FY 2009 or 17.79%.

VRE STAFF RECOMMENDATION

The VRE staff recommendation is that the two budget options be referred to the Commissions and forwarded to the jurisdictions for adoption and to the NVTA for approval of the use of HB 3202 funds as requested. If HB 3202 funds are available, then the HB 3202 option is recommended for final adoption. If these funds are not available, then the base budget is recommended for final adoption.

REVISED FY 2008 CAPITAL AND OPERATING BUDGET

The FY 2008 budget has been revised to reflect current projections for revenue and expenses. The major changes are as follows:

- State revenue is increased by \$2.4 million to reflect a higher capital match percentage (52% compared to the budgeted amount of 23%), and a lower than budgeted allocation of state operating funds.
- Miscellaneous income is increased by \$360,000 to reflect an insurance reimbursement and the sale of Mafersa parts.
- Local match is increased by \$126,000 for higher than anticipated federal formula funds.
- Various expense categories are increased by \$562,000 for locomotive leasing costs, FELA insurance increases, additional facilities costs and a second marketing campaign.
- Fuel costs are increased by \$300,000 to reflect the upsurge in diesel fuel prices.
- Amtrak and equipment operations costs are increased by a total of \$2.1 million to reflect higher maintenance of equipment costs, particularly of the locomotives.

These changes can be accommodated within the funding originally set aside in the adopted contingency budget and the use for operations of the \$360,000 in miscellaneous revenue described above. The changes to the FY 2008 budget have been included in the FY 2009 proposed budget, where applicable.

TO: CHAIRMAN KAUFFMAN AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: DECEMBER 21, 2007
RE: REFERRAL OF THE REVISED FY 2008 AND RECOMMENDED
2009 VRE OPERATING AND CAPITAL BUDGET TO THE
COMMISSIONS AND LOCALITIES

RESOLUTION
9A-12-2007
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, the VRE Master Agreement requires that the Commissions be presented with a fiscal year budget for their consideration at their respective January 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 FY 2009 Operating and Capital Budget within the guidelines developed in concert with the jurisdictional chief administrative officers; and,

WHEREAS, staff recommends a “base” budget built on an average daily ridership of 14,700 and 30 trains and a second “HB 3202” budget built on an average daily ridership of 15,400 and 32 trains; and

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby recommend that the Commissions adopt the revised FY 2008 and recommended FY 2009 VRE Operating and Capital Budget and forward the FY 2009 budget to the local jurisdictions for inclusion in their budgets and appropriations in accordance with the Master Agreement; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does also recommend that the Executive Directors of both PRTC and NVTC submit to the Transportation Planning Board of the National Capital Region and to the Federal Transit Administration or other federal agencies, the appropriate Transit Improvement Program and grant applications for FY 2008 and FY 2009; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board additionally recommends that the Executive Director of NVTC be authorized to submit to the Commonwealth the approved budget as part of the FY 2009 state aid grant applications.