

AGENDA ITEM 9-A
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

RE: FY 2010 BUDGET GUIDELINES

RECOMMENDATION:

The VRE Operations Board is being asked to direct staff in the development of the FY 2010 budget options for train operations and capital projects.

BACKGROUND:

VRE has adopted a financial planning process that provides for early consideration of budget issues and assumptions. Each year, VRE meets with the member jurisdictions' Chief Administrative Officers (CAO) and Commission and jurisdictional staff to develop budget guidelines and examine the preliminary budget. An independent CAO recommendation is provided to the Operations Board and Commissions in advance of the consideration of the final budget submission at the December Operations Board meeting.

As part of the budget process, the jurisdictional CAO Budget Task Force met on June 4, 2008 to review various budget issues, including the rapidly increasing cost of fuel, Amtrak operating costs, the fleet management plan, ridership projections, and funding issues in lieu of NVTA funding. The goal is to permit the Budget Task Force to focus on material issues early in the budget process.

FY 2010 BUDGET ISSUES AND ASSUMPTIONS

- Fuel. With the most recent price of \$3.91 per gallon (benchmark price for FY 2009 as of 5/16/08), staff anticipates fuel becoming a material cost increase for FY 2010. VRE recently locked in a futures price of \$4.00 per gallon and anticipate fuel costs increasing from the FY 2009 Budget a minimum of \$2.5M to \$3.0M. PRTC will be recalculating fuel tax receipts and projections, targeted for September 2009.
- Ridership Projections. Staff has ridership projections based on two scenarios; no additional trains being added before FY 2016 and two trains being added in FY 2010 and FY 2012.
- Insurance Trust Fund. Without the benefit of the NVTA funding, the insurance trust fund continues to be a significant issue in restoring the balance to the \$10M level.
- Restoration of the Operating Reserve. Fuel costs in FY 2008 and FY 2009 will cause a significant decrease in the operating reserve. The FY 2010 Budget should begin the restoration of these losses.
- Number of Trains. Currently, the train schedule is projected to increase from 30-trains to 32-trains, per the FY 2009 Six Year Financial Forecast, in FY 2010. A review of the cost and expected fare revenue of adding trains will be made during the budget process. Service additions will be difficult without a material increase in state funding.
- Amtrak Settlement Costs: Amtrak labor settlement costs will likely be paid in FY 2008 and FY 2009, but this will materially increase the base for FY 2010.
- Amtrak Contract: Amtrak's current contract expires on June 30, 2010. If another entity were to be awarded the contract, there would be the possibility of a six-month period of overlapping costs for the transition.
- Locomotives: Additional funding for locomotives is desperately needed. Replacement of aging locomotives is a main priority to maintain OTP. Due to the loss of HB 3202 funds, the match is no longer available for state or federal funding already provided.
- Governance Phasing: This will be year 3 of 4 of the Governance Phasing for subsidy. The subsidy will likely increase for most jurisdictions, except Fairfax County, due to the shift from population/ridership towards 100% ridership, regardless of any additional funding needs.

- State Funding: The General Assembly will be meeting on June 23rd to determine if any additional aid will be made available in lieu of the NVTA funding that is no longer available.
- Cost Recovery Ratio. The budget forecast needs to ensure the cost recovery ratio remains in the 50% to 60% range.

NEXT STEPS:

- Continue discussing FY 2010 budgeting scenarios with the CAO Budget Task Force.
- Present preliminary budget forecasts to the Operations Board in August 2009.
- Begin review of all FY 2010 revenue and cost assumptions in September 2009 with CAO Budget Task Force.

FISCAL IMPACT:

There is no fiscal impact related to the development of the FY 2010 budget.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: FY 2010 BUDGET GUIDELINES

**RESOLUTION
9A-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD**

WHEREAS, effective financial planning for the Virginia Railway Express is based on budget development with guidelines approved by the VRE Operations Board; and,

WHEREAS, the VRE Operations Board has directed that the development of each annual budget involve consultation and cooperation with the Chief Administrative Officers of VRE's participating and contributing jurisdictions; and,

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board directs staff to develop budget options for the FY 2010 operating and capital budget that:

- Require an operating cost recovery ratio above 50%
- Minimize any fare and subsidy increases by reducing and managing cost increases
- Explore budget options that could provide for additional train service during FY 2010
- Investigate all means to minimize any FY 2010 operating and capital shortfalls
- Accommodate indexing based on inflationary and growth factors

AGENDA ITEM 9-B
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

RE: APPROVAL OF REVISION TO INVESTMENT POLICY

RECOMMENDATION:

The VRE Operations Board is being asked to approve a revision to the investment policy to increase the allowable percentage of the portfolio that can be invested in money market funds. In June 2007, staff asked for an increase to the percentage of the portfolio that could be invested in money market funds from 20% to 60%. The Board improved an increase of up to 40% and requested that staff come back after a year with any further requests.

BACKGROUND:

In September of 2004, the Operations Board approved a formal investment policy which established guidelines for the purchase and sale of investment instruments. The goals of the policy are to minimize risk, ensure the availability of cash to meet VRE's expenditures, and generate income from the investment of funds. VRE's policy was developed in accordance with the Code of Virginia's requirements for the investment of public funds.

The VRE investment policy specifies a list of allowable investments with the maximum term and the percent of the portfolio that can be invested in each type of instrument. These limitations are designed to minimize the risk of loss of principal and to assure sufficient liquidity. Money market funds that restrict their investments to certain securities (generally government issued debt) and have the highest rating for such funds are allowable, but within the percentage limitation indicated above.

The current 40% limitation is unusually restrictive compared to the policies of surrounding jurisdictions and the model policy of the Government Finance Officers Association (GFOA) and it presents some logistical difficulties, particularly in regard to bond principal and

interest payments. For example, Prince William County limits money market funds to 60% of the portfolio; Stafford County and the City of Manassas have no percent limitation for investments; and GFOA does not recommend any percent limitation for government money market funds. Fairfax County limits money market and repurchase agreements combined to 30% of the portfolio, but they rely primarily on their own securities purchases because of the size of their operation.

As of the portfolio report to the Audit and Finance Committee at the end of the March 2008, money market funds were 39% of the portfolio. The bulk of these funds are with the bond trustee and must be held by them until the next payment to the bondholders on July 1; there are no consistently available and desirable alternatives to these funds being invested in a money market account. As restricted grant funds held at the LGIP are used for projects, the percentage of the portfolio in money market accounts could increase above the current policy restrictions, particularly just prior to bond payment dates. Given the current investment climate, VRE is looking at ways to diversify investments, but this will not affect the need to make the requested policy change.

The policy vests the authority for investing VRE funds and recommending investment policy changes with the Director of Finance. The Director of Finance and the CEO recommend that the percent of the portfolio that can be invested in government money market funds be increased from 40% to 60%.

The proposed change to the investment policy was approved by the Audit and Finance Committee at their meeting on June 20, 2008.

FISCAL IMPACT:

There is no fiscal impact.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: APPROVAL OF REVISION TO INVESTMENT POLICY

RESOLUTION
9B-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, in September of 2004, the Operations Board approved a formal investment policy which established guidelines for the purchase and sale of investment instruments; and,

WHEREAS, the VRE investment policy specifies a list of allowable investments with the maximum term and the percent of the portfolio that can be invested in each type of instrument; and,

WHEREAS, in June 2007, the investment policy was modified to increase the percentage of the portfolio that can be invested in government money market funds from 20% to 40%; and,

WHEREAS, the Director of Finance and the CEO recommend that the percent of the portfolio that can be invested in government money market funds be further increased to 60%, and,

WHEREAS, the Audit and Finance Committee has recommended that this revision to the investment policy be approved.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board approves a revision to the investment policy to increase the allowable percentage of the portfolio that can be invested in money market funds from 40% to 60%.

AGENDA ITEM 9-C
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

**RE: AUTHORIZATION TO ENTER INTO A MOU WITH THE CITY OF
MANASSAS FOR THE OPERATION AND MAINTENANCE OF A
PARKING FACILITY**

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to enter into an agreement with the City of Manassas for the ownership and operation of a joint parking facility adjacent to the VRE Manassas station.

BACKGROUND:

On November 17, 2006, the VRE Operations Board approved a Memorandum of Understanding (MOU) with the City of Manassas for the construction and operation of the joint VRE-City parking garage. As the 532 space garage is scheduled to open in July, a MOU for the specific operation of the garage is now needed. The aforementioned MOU will remain in effect and be supplemented by this agreement.

The proposed MOU outlines understandings and responsibilities of each party regarding use, maintenance, landscaping, snow removal, security, parking enforcement, and insurance. Specifics elements of the MOU include:

- VRE will own 60% of the facility and the City will own 40% of the facility.

- Allocation of sixty percent of the parking spaces (319 spaces) will be generally made available on the first three levels for VRE commuter parking.
- Allocation of forty percent of the parking spaces (213 spaces) will be generally made available on the fourth and fifth levels for Old Town parking.
- Commuter spaces will also be available for use in the off peak commuter times for Old Town parking.
- VRE will be responsible for the operation and maintenance of the Parking Facility, including routine maintenance, such as trash removal, cleaning, elevator operations and inspections, and long term capital maintenance.
- The City will be responsible for snow removal and landscaping after installation at the Parking Facility.
- Parking enforcement and periodic patrols will be provided by the City of Manassas police department as part of normal patrol duties.
- All operations, insurance and maintenance costs will be prorated based on the number of spaces (60% VRE & 40% City).

FISCAL IMPACT:

While there is no explicit financial impact regarding the execution of this MOU, maintenance responsibilities will be included in the annual approval of the VRE facilities maintenance contract. The total cost of maintaining the facility is currently being estimated at \$60,000 per year. VRE has budgeted its prorated share in the FY 2009 operating budget.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
**RE: AUTHORIZATION TO ENTER INTO A MOU WITH THE CITY OF
MANASSAS FOR THE OPERATION AND MAINTENANCE OF A
PARKING FACILITY**

**RESOLUTION
9C-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD**

WHEREAS, the City and VRE opted to combine two parking facility projects into one garage; and,

WHEREAS, the facility will be jointly owned and used; and,

WHEREAS, a Memorandum of Understanding (MOU) is required to outline understandings and responsibilities for each party to facilitate the operation and maintenance of the parking facility.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to enter into an agreement, following legal review, with the City of Manassas for the ownership and operation of a joint parking facility adjacent to the VRE Manassas station.

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize conveyance of 40% of the garage to the City once construction of the garage is complete.

AGENDA ITEM 9-D
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

SUBJECT: AUTHORIZATION TO EXTEND AMENDED OPERATING/ACCESS AGREEMENT WITH CSXT

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to execute an extension of the existing Amended Operating/Access Agreement with CSXT to January 31, 2009.

BACKGROUND:

The VRE has an Operating/Access Agreement with CSXT related to VRE operations in the Fredericksburg to Washington corridor. That agreement, entered into in 1994, has been amended and extended several times, most recently this past December, with an agreed upon extension to July 31, 2008. A further extension is being requested at this time to provide sufficient time to complete negotiation of a new agreement.

Since December 2005, numerous negotiation sessions have been held with CSXT representatives on the terms of a new, long-term agreement. Preliminary agreement was achieved in a number of areas to include:

- Term of the agreement
- Change in method of calculating the annual escalation
- Incentive agreement for improved on time performance
- Additional CSXT supervision in the VRE operating territory
- Approval of infrastructure improvements at VRE facilities

Progress has slowed, however, due to a failure to reach an agreement on the level of liability coverage. CSXT continues to insist on including a higher level of liability and terrorism coverage in the new agreement. Although we were able to cap commuter rail liability at the state level, the legislation does not provide protection from gross negligence claims or claims of third parties, i.e. nonpassengers. Therefore, CSXT and Norfolk Southern continue to press for higher liability insurance coverage. Currently, VRE has \$250 million in coverage. An extension of the current agreement is needed while this issue is resolved.

FISCAL IMPACT:

Funding for the CSX track access fees have been included in the FY 2009 budget, including an escalation of 4% annually.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO EXTEND AMENDED OPERATING/ACCESS AGREEMENT WITH CSXT

**RESOLUTION
9D-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD**

WHEREAS, the Commissions currently have an amended Operating/Access Agreement with CSXT relating to VRE operations in the Fredericksburg to Washington corridor, with said agreement extension ending on July 31, 2008; and,

WHEREAS, staff is currently engaged in ongoing discussions with CSXT concerning a new agreement and does not anticipate conclusion of these discussions prior to the expiration of the Amended Operating/Access Agreement; and,

WHEREAS, a proposal to extend the existing agreement to January 31, 2009, without any changes to the current agreement is expected from CSXT; and,

WHEREAS, the purpose of this extension is to allow time to negotiate and resolve the outstanding liability issues relating to a new agreement; and,

WHEREAS, necessary funding has been incorporated into the FY 2009 budget to allow VRE to continue its operations over CSXT tracks via this contract extension.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to execute an extension of the existing Amended Operating/Access Agreement with CSXT to January 31, 2009.

AGENDA ITEM 9-E
ACTION ITEM

TO: CHAIRMAN KAUFFMAN AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

SUBJECT: AUTHORIZATION TO EXTEND AMENDED OPERATING/ACCESS AGREEMENT WITH NORFOLK SOUTHERN

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to execute an extension of the existing Amended Operating/Access Agreement with Norfolk Southern to January 31, 2009.

BACKGROUND:

VRE has an Operating/Access Agreement with Norfolk Southern (NS) relating to VRE operations in the Manassas to Washington corridor. That agreement, entered into in 1999, has been amended and extended several times, most recently this past December, with an agreed upon extension to July 31, 2008. A further extension is being requested at this time to provide sufficient time to complete negotiations of a new agreement.

Following detailed negotiation sessions with Norfolk Southern representatives, an agreement in principle was reached on all contract items with the exception of liability coverage. The Operations Board and Commissions approved these terms at their June and July, 2005 meetings respectively, and authorized execution of a new agreement that conformed to each of those items.

Subsequent to the Commissions' action, however, it became clear that an agreement on the level of liability coverage could not be reached and the contract could not be executed. Norfolk Southern insists on including \$500 million in liability and terrorism coverage in the new agreement. Currently, VRE has \$250 million in coverage. An extension of the current agreement is needed while staff continues to attempt to resolve the insurance issue.

FISCAL IMPACT:

Funding for the Norfolk Southern track access fees have been budgeted in the FY 2009 budget, including an escalation of 4% annually.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO EXTEND AMENDED OPERATING/ACCESS
AGREEMENT WITH NORFOLK SOUTHERN

RESOLUTION
9E-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, the Commissions currently have an Operating/Access Agreement with Norfolk Southern related to VRE operations in the Manassas to Washington corridor, with said agreement ending on July 31, 2008; and,

WHEREAS, staff has reached an agreement in principle on many substantive items relating to a new agreement following detailed negotiation sessions with Norfolk Southern representatives; and,

WHEREAS, a proposal to extend the existing agreement to January 31, 2009, without any changes to the existing agreement is expected from NS; and,

WHEREAS, the purpose of this extension is to allow time to negotiate and resolve the outstanding insurance issues relating to a new agreement; and,

WHEREAS, necessary funding has been incorporated into the FY 2009 budget to allow VRE to continue its operations over Norfolk Southern tracks via this contract extension.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to execute an extension of the Amended Operating/Access Agreement with Norfolk Southern through January 31, 2009.

AGENDA ITEM 9-F
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

**RE: AUTHORIZATION TO ISSUE A TASK ORDER FOR DAILY HEP
AND HOT START INSPECTIONS AND RUNNING REPAIRS**

RECOMMENDATION:

The VRE Operations Board is being asked to authorize the Chief Executive Officer to issue a task order to Transportation Technologies, Inc. (TTI) to perform daily HEP and hot start inspections and running repairs through June of 2009 for a cost not to exceed \$187,000.

BACKGROUND:

Over the past two years, VRE has suffered three complete HEP failures due to deficient maintenance practices and the deterioration of locomotive hot starts. As part of ongoing efforts to improve locomotive maintenance efforts, VRE staff is recommending a task order to enhance daily inspections and running maintenance for the HEPs and hot starts.

VRE conducted a trial of this maintenance program using TTI during the past three months and determined it to be of great value to the daily operation. This proposed task order is designed to last for one year, after which the program will be reviewed for a determination of continuing contribution.

Although VRE is currently in the process of replacing all of the defective units with new, modern hot starts, the remaining hot starts must receive regular running maintenance to continue to be reliable for daily operations.

FISCAL IMPACT:

Funding for this task order is provided from the FY 2009 Operation budget.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO ISSUE A TASK ORDER FOR DAILY HEP
AND HOT START INSPECTIONS AND RUNNING REPAIRS

RESOLUTION
9F-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, as part of ongoing efforts to improve locomotive maintenance, VRE staff is recommending enhanced daily inspections and running maintenance for the fleet's HEPs and hot starts; and,

WHEREAS, Transportation Technology, Inc. is already under contract with VRE to perform locomotive repair services; and,

WHEREAS, VRE conducted a trial of this maintenance program using TTI during the past three months and determined it to be of great value to the daily operation.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board authorizes the Chief Executive Officer to issue a task order to Transportation Technologies, Inc. (TTI) to perform daily HEP and hot start inspections and running repairs through June of 2009 for a cost not to exceed \$187,000.

AGENDA ITEM 9-G
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

**RE: AUTHORIZATION TO EXECUTE A LEASE AGREEMENT FOR TOWER
INSTALLATION AT THE LEELAND ROAD STATION**

RECOMMENDATION:

The VRE Operations Board is being asked to authorize the Chief Executive Officer to execute a five-year lease agreement, with renewal options up to fifty additional years, with Mid-Atlantic Tower Holding Company for tower installation at the Leeland Road VRE Station as part of the two-way VHF radio project

BACKGROUND:

On June 15, 2007, the VRE Operations Board approved a contract for design and construction of a VHF two-way radio communication system. This system will provide VRE with an assigned railroad radio frequency on which information can be exchanged between VRE trains and the VRE offices in Alexandria and the Amtrak offices in Washington, DC. Additionally, VRE will be able to monitor two Norfolk Southern and two CSXT radio frequencies utilized to dispatch and control freight, VRE, and Amtrak trains.

The radio system requires the utilization of three towers, to be located in Alexandria, Fairfax Station, and Leeland Road. On March 21, 2008, the VRE Operations Board approved a license agreement to lease space on the Fairfax Station antenna tower. The Alexandria antenna location has been established and is currently going through the local permitting process. This authorization will allow a small portion of unused land at the Leeland Road station to be leased to Mid-Atlantic Tower Holding Company.

As part of this lease, Mid-Atlantic will construct and maintain the tower at no expense to VRE. As VRE will own the tower, Mid-Atlantic will pay VRE \$2,000 per month and allow VRE space on the tower to support the VHF radio project. This revenue will be used to offset operating expenses for the project. The tower also has the added benefit of improving cellular reception in the Leeland Road area. Mid-Atlantic will be the recipient of any additional revenue generated from the tower. It is estimated that additional leased space could generate up to \$1,600 per month, per space with potential for three to four spaces leased.

The initial lease will last for a term of five years. Upon completion of the first lease term, VRE has the option to renew the lease for ten additional periods of five years each. VRE will return to the Board after the initial lease term.

FISCAL IMPACT:

No funds are required for this agreement. The expected revenue will help offset other costs associated with operating the two-way radio communications system.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO EXECUTE A LEASE AGREEMENT FOR TOWER
INSTALLATION AT THE LEELAND ROAD STATION

RESOLUTION
9G-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, on June 15, 2007, the VRE Operations Board approved a contract for design and construction of a VHF two-way radio communication system; and,

WHEREAS, this system will provide VRE with an assigned railroad radio frequency on which information can be exchanged between VRE trains and the VRE offices in Alexandria and the Amtrak offices in Washington, DC; and,

WHEREAS, the radio system requires the utilization of three towers; to be located in Alexandria, Fairfax Station, and Leeland Road; and,

WHEREAS, VRE and Mid-Atlantic Tower Holding Company have negotiated terms of a license agreement at Leeland Road.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board authorizes the Chief Executive Officer to execute a five-year lease agreement, with renewal options up to fifty additional years, with Mid-Atlantic Tower Holding Company for tower installation at the Leeland Road VRE Station as part of the two-way VHF radio project

AGENDA ITEM 9-H
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

**RE: AUTHORIZATION TO EXECUTE A FORCE ACCOUNT AGREEMENT
FOR THE CHERRY HILL THIRD TRACK PROJECT**

RECOMMENDATION:

The VRE Operations Board is being asked to authorize the Chief Executive Officer to execute a force account agreement with CSX Transportation for the Cherry Hill Third Track project in the amount of \$247,952, plus a 10% contingency, for a total amount not to exceed \$272,747.

BACKGROUND:

On March 21, 2008, the VRE Operations Board authorized execution of a contract for engineering and environmental services for the Cherry Hill Third Track project. Work has begun and is expected to be completed in the fall of 2009. A force account agreement is now needed with CSX in order to allow for reimbursement of their efforts in support of the design phase of the project, including flagging services, engineering review and approvals, and signal and operational coordination. A separate agreement will be brought to the Operations Board at a later date for construction support. Similar to previous force account agreements, CSX submits actual costs for reimbursement.

FISCAL IMPACT:

Funding is provided from the Virginia Department of Rail and Public Transportation (DRPT) Rail Enhancement Fund grant.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO EXECUTE A FORCE ACCOUNT AGREEMENT
FOR THE CHERRY HILL THIRD TRACK PROJECT

RESOLUTION
9H-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, on December 15, 2005, the Commonwealth Transportation Board approved \$2,500,000 for the Cherry Hill Station Third Track project; and,

WHEREAS, on March 21, 2008, the VRE Operations Board authorized execution of a contract for environmental and preliminary engineering services to STV/RWA; and,

WHEREAS, a force account is now needed with CSX to allow for reimbursement of project related expenses.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby authorize the Chief Executive Officer to execute a force account agreement with CSX Transportation for the Cherry Hill Third Track project in the amount of \$247,952, plus a 10% contingency, for a total amount not to exceed \$272,747.

AGENDA ITEM 9-I
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

RE: AUTHORIZATION TO EXECUTE A LEASE FOR AVAILABLE SPACE AT THE QUANTICO VRE STATION

RECOMMENDATION:

The VRE Operations Board is being asked to authorize the Chief Executive Officer to enter into a lease agreement with the Coffee Club Café Company, Inc. for the operation of concession and ticket sales at the Quantico VRE station.

BACKGROUND:

On May 2, 2008, VRE requested proposals for the operation of concession and ticket sales at the Quantico station. VRE requested proposals including hours of operation and monthly payments. Proposals were due on June 2, 2008 and an interview took place on June 9, 2008.

One proposal was submitted and included operation from 5:00 a.m. until 8:00 p.m. Monday through Friday with a payment of \$500 per month. Following review by the selection committee, the Coffee Club Café is being recommended for award. The term of the lease is for one year from the date of contract execution, with four one year renewal options. VRE's CEO will exercise the option years at his discretion.

FISCAL IMPACT:

The monthly revenue generated from this lease is invested in VRE's Operating account to help offset maintenance expenses.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO EXECUTE A LEASE FOR AVAILABLE
SPACE AT THE QUANTICO STATION

RESOLUTION
9I-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, one of the enclosed vendor spaces inside the Quantico VRE station has become available for lease; and,

WHEREAS, a competitive procurement was issued in May of 2008 through which one proposal was received; and,

WHEREAS, the selection committee has reviewed this proposal and is recommending award.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board authorizes the Chief Executive Officer to enter into a lease agreement with the Coffee Club Café company, Inc. for the operation of concession and ticket sales at the Quantico VRE station.

AGENDA ITEM 9-J
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 20, 2008

**RE: AUTHORIZATION TO SELL THIRTEEN KAWASAKI RAILCARS
AND TO PURCHASE TEN NEW GALLERY STYLE CARS**

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the VRE Chief Executive Officer to sell thirteen Kawasaki railcars to the Maryland Transit Administration and to concurrently purchase ten new Gallery style cars from the Sumitomo Corporation of America.

BACKGROUND:

In March of 2008, the Operations Board authorized the Chief Executive Officer to pursue the sale of thirteen Kawasaki railcars and issue an RFP for the purchase of ten new Gallery cars to potentially replace the Kawasaki cars. The two transactions were linked because the Kawasaki railcars could not be sold unless sufficient funds were available to purchase replacement cars.

Following that authorization, VRE posted both the Intent to Sell and RFP on the VRE web site. In response to the RFP for new cars, VRE received one proposal from the Sumitomo Corporation of America. VRE and Sumitomo Corporation of America negotiated a purchase price of \$22,000,000 for ten Gallery style railcars. The total cost of the new cars, with construction oversight and contingency is estimated at \$24,980,000. VRE recommends the purchase contingent upon the sale of thirteen Kawasaki railcars under the terms described below. A separate

action item for construction oversight of the manufacture will be brought before the Operations Board at an upcoming meeting.

The funding for the ten new railcars would come from two sources: (1) the net cash generated by the sale of the Kawasaki cars; and (2) the remaining available loan funds previously authorized by the Commissions and included in the Federal Railroad Administration (FRA) financing that was used for the purchase of the 50 railcar option. The increased payments for the FRA loan would then, in turn, be paid for using funding originally allocated for the repayment of the Kawasaki bonds.

The FRA approved a loan to VRE for \$72.5 million in 2005. However, only \$57.5 million of the total loan amount was needed for the 50 railcar option order and subsequently approved by the Commissions. Additional grant funds were provided by the state prior to completing the purchase which further reduced the loan amount to \$55 million, leaving an available loan balance of over \$17 million. FRA has approved the addition of ten cars to the current loan in principle and the paperwork is forthcoming.

With respect to the sale of the thirteen Kawasaki railcars, VRE publically posted and initiated discussions with four commuter rail agencies to stimulate interest in the sale and received one written offer from the Maryland Transit Administration (MTA) for \$22 million, inclusion of associated spare parts, and their assumption of the remaining federal interest. After reviewing the terms of that offer, VRE staff recommends acceptance. PFM, VRE's financial advisor, estimates that \$14.3 million is needed to defease (put funds aside to service the remaining debt) the outstanding Series 1997 bonds used to finance the Kawasaki railcars. The MTA offer provides sufficient funds to defease the bonds and pay for a portion of the purchase price of the replacement cars. The remainder of the purchase price will be funded using the FRA loan. Loan payments will be made via federal formula funds currently used for the debt service on the Series 1997 Kawasaki bonds.

Total funding for the ten new railcars will be provided for as follows:

Cash remaining from sale of Kawasaki railcars	\$ 7,700,000
FRA loan	<u>17,280,000</u>
Total	\$24,980,000

The financial details of both transactions are provided in the attached chart. The FRA loan capacity is already in place and can be accessed immediately, providing the Commissions and jurisdictions have approved the assumption of this debt. The loan carries a 4.74% interest rate and allows prepayment at any time without penalty.

Benefits of Kawasaki Sale

- a. Standardizes VRE's fleet to all Gallery style railcars. If the sale and purchase is approved, VRE will have 71 new Gallery style railcars and 30 older Gallery style railcars in the fleet. The fleet would provide sufficient railcars for up to 14 consists and 36 trains. Today VRE operates 11 consists and 30 trains. Replacing 13 Kawasaki railcars with 10 new Gallery style railcars does not impede VRE's ability to expand the service to 36 trains as outlined in our fleet plan through FY 2016 as more of the Pullman gallery fleet is being retained.
- b. Reduces railcar maintenance costs. The 13 Kawasaki railcars are more mechanically complex than the Gallery railcars. Historically, these cars have had an average of 11% higher maintenance costs than VRE's Gallery railcars. They are designed for 125 mph service and have dual braking systems compared to the Gallery coaches which are rated at 79 mph and have a single brake system. Currently, both CSX and NS limit VRE's operating speed in the corridor at 79 mph.
- c. Increases fleet flexibility. Currently, the Kawasaki railcars have limited compatibility with the Gallery railcars and are functionally, a stand-alone fleet. Thus, VRE is limited to using the Kawasaki railcars in unique consists and can only achieve two six-car consists or one eight-car and one four-car consist. In either configuration, VRE only has a one car contingency for maintenance – which is considered too low for VRE's level of service reliability.
- d. Provides exceptional sales price for the Kawasaki railcars. The total sales price for the Kawasaki railcars is nearly what we paid for the railcars nine years ago. VRE staff does not believe a higher price will be achieved in the future. Thus, the time to sell the railcars is now.

NEXT STEPS

The Notice to Proceed (NTP) for the Gallery railcar purchase must be granted no later than September 26, 2008, with VRE's best effort made to issue a Notice by August 31, 2008, under the terms of Sumitomo's response to the RFP. In addition, the Amended Offer from MTA for the purchase of the Kawasaki cars is only valid until early October. As a result, the required Commission and jurisdiction approvals must be secured as rapidly as possible.

The requests for authorization to sell the Kawasaki cars, defease the associated debt, purchase the Gallery cars and increase the loan amount for this purpose will be presented to the Commissions at their July meetings. In order to expedite the process, the Operations Board is being asked to authorize the Chief Executive Officer to approach each jurisdiction following Operations Board approval to attempt to gain jurisdictional approval for the purchase of the Gallery cars and the issuance of additional debt prior to August 31, 2008.

Finally, prior to the sale of the Kawasaki railcars, FTA must approve the transfer of remaining federal interest in these railcars to MTA. Preliminary discussions with FTA have occurred and formal approval for the transfer will be sought. These discussions would resume with urgency following Operations Board approval.

FISCAL IMPACT:

The financial impact of the sale of thirteen Kawasaki railcars and purchase of ten new Gallery railcars is projected as follows:

Decrease in outstanding debt	\$13,535,000
Increase in new debt	<u>17,280,000</u>
Net increase in total debt	\$3,745,000
Decrease in annual debt service costs	\$712,151

An analysis was done which compared the costs of debt repayment and maintenance for the 15 year period from FY 2009 to FY 2023 for the purchase of the new railcars and the retention of the existing railcars. The decrease in gross costs for the period, as a result of the requested purchase, is estimated at approximately \$4.0 million. The decrease in costs on a net present value basis for the same period is approximately \$5.3 million, as both the maintenance and financing costs are lower in the near term if the new Gallery railcars are purchased.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: JUNE 20, 2008
RE: AUTHORIZATION TO SELL THIRTEEN KAWASAKI RAILCARS
AND TO PURCHASE TEN NEW GALLERY STYLE CARS

RESOLUTION
9J-06-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, VRE has been presented with a unique market opportunity to sell the Kawasaki fleet; and,

WHEREAS, such a sale could standardize VRE's railcar fleet and reduce overall railcar maintenance costs; and,

WHEREAS, the requirements for VRE's fleet size can be sustained through the acquisition of ten more Gallery style cars to replace the Kawasaki cars; and,

WHEREAS, through competitive advertising and solicitation, buyers and sellers have been identified and two separate, but linked transactions are being recommended by VRE staff; and,

WHEREAS, the Master Agreement provides that VRE shall utilize reasonable debt financing to the extent that such financing is advantageous and is in the interest of the parties to the Master Agreement, but requires that VRE not assume debt without the consent of all Participating and Contributing Jurisdictions.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to execute a sales agreement for the sale of thirteen Kawasaki railcars and associated spare parts to the Maryland Department of Transportation for \$22 million and their assumption of the remaining federal interest; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to purchase ten new Gallery railcars from Sumitomo Corporation of America for \$22 million, plus a contingency of \$660,000, for a total amount not to exceed \$22,660,000; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that subject to approval by all VRE Master Agreement signatory member jurisdictions, the Commissions authorize an increase to the FRA loan in an amount not to exceed \$17,350,000, with a term not to exceed 25 years, an interest rate of 4.74%, and a credit risk premium of 1.88%; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to negotiate, complete, execute and deliver documents required to achieve said FRA financing and pay any associated financing costs to a related payee; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to negotiate, complete, execute and deliver documents required to defease the 1997 Kawasaki bonds and pay any associated financing costs to a related payee; and,

BE IT FURTHER RESOLVED THAT, in order to expedite the process required for implantation of the loan, the VRE Operations Board authorizes the Chief Executive Officer to approach each VRE member jurisdiction in an effort to gain jurisdictional approval of debt prior to August 31, 2008.

Sale of Kawasaki Railcars and Purchase of New Gallery Railcars

Sale of Kawasaki Railcars

Comments

Series 1997 Bond Issue

Amount of issue - 7/1/1997	23,000,000
Amount outstanding after 7/1/2008	13,535,000
Cost of defeasance	14,300,000

Proceeds from Sale

Estimated sale price	22,000,000
Cost of defeasance	14,300,000
Cash remaining after defeasance	7,700,000

Current Loan Costs for Kawasaki Railcars

Current annual debt service costs	1,950,000	Varies each year; \$1.95 is aver.
Number of years remaining	9	Last payment on 7/1/2017
Amount outstanding after 7/1/2008	13,535,000	

Purchase of New Gallery Railcars

Number of cars needed	10	
Base Price per car	<u>2,200,000</u>	
Total cost for railcars	22,000,000	
Oversight of construction	2,100,000	
Contingency	<u>880,000</u>	
Total cost for new railcars	24,980,000	
Amount to be financed	17,280,000	Provided by FRA RRIF Loan
Annual debt service, RRIF loan	1,237,849	
Number of years based on existing loan origination date	23	Last payment on 3/19/2033

Cost Comparison - Result of Sale of Kawasaki Cars and Purchase of Gallery Cars

(Decrease) to annual debt service costs	(712,151)	
Increase to total debt	3,745,000	
For 15 year period - FY 2009 to FY 2023:		
(Decrease) to gross costs	(4,038,234)	NPV limited to 15 years as projections beyond this term are extremely uncertain. VRE's financial advisor concurred.
(Decrease) to costs - net present value	<u>(5,277,472)</u>	