To: Chairman Cooke and the VRE Operations Board

From: Doug Allen

Date: November 20, 2015

Re: FY 2017 Budget Update

As we prepare for action on the FY 2017 Budget in December, a brief update and discussion on the FY 2017 budget will take place. Shown below are highlights and key issues.

The prior version of the budget presented to the Operations Board in September 2015 showed unfunded costs of $2.8M, with a 5% increase to the jurisdictional subsidy.

The current budget shows unfunded costs of $1.18M. This is primarily due to revised ridership, revenue and average fare projections, revisions of departmental expenditures, identification of one-time operational costs and reduction of contingency.

**5% Jurisdictional Subsidy Increase:** The current VRE budget reflects our proposed 5% jurisdictional subsidy increase. This is in line with the FY 2016 budget recommendations in the six-year forecast.

Without this increase, the unfunded costs in the current budget will rise to $2.0M.

**Ridership and Revenue:** We have decreased projected average daily ridership for FY 2017 from 19,700 to 19,100 in light of current ridership information. We have also increased the average fare from $7.90 to $8.10 to reflect FY 2016 purchasing trends. The net effect of these two projection changes was to increase our shortfall by $240K. We will continue to closely monitor ridership trends going forward.
**Operational Costs:** We have performed a full line-item review of departmental operational costs, and made numerous adjustments to better reflect the most accurate and up-to-date projections of those costs. We have also identified items that qualify as one-time operational costs, totaling $377K.

**Fuel:** We have revised our fuel estimates based on the most recent available data to better reflect the fuel market as well as revised estimates of use. We have increased use from 1.6 million gallons to 1.66 million, and reduced the cost per gallon from $3.25 to $3.00, resulting in a net savings of $360K.

**Contingency:** We have revised our contingency for FY 2017 from 2% to 1% of operating costs, resulting in a savings of $755K. We believe this represents an adequate contingency amount for FY 2017.

**Capital:** The six-year capital plan is still under review, but has changed considerably since the version in September. We have updated the budget to reflect CMAQ, IPROC and REF funding and projects, and revised the federal formula funds and projects to reflect the most recent Capital planning. Major projects in the capital budget include the Facilities Asset Management Program, the Equipment Asset Management Program and the mid-day storage projects. The Capital Committee will be reviewing CIP projects and funding issues at their meeting following the November Board meeting.

**Closing the FY 2017 Budget Gap:** Work on the budget will continue over the next month in conjunction with the CAO Task Force. We are currently looking at the following items in order to close the budget gap:

1. Updated estimates of revenue and costs:
   - Increases to the train operations and maintenance of equipment contract are based on changes to the Consumer Price Index (CPI). The relevant data will become available on November 17th. The budget is based on a 3% increase, but we expect the number to be lower which will be reflected in the final calculation.
   - State operating assistance is budgeted at $9.0M, a decrease from the FY 2016 actual amount of $9.2M. We are awaiting estimates from the State of their expectations for FY 2017 operating assistance.

2. Second-pass review of the four proposed new FTE positions, and ways to reduce the cost burdens of these positions via alternate funding. (See attachment 1)
3. Continued ongoing review of departmental operational costs.
4. As a final measure, a reduction of the $3M annual contribution to the VRE Capital Reserve established in FY 2015.

VRE staff will have a balanced budget to present to the CAO Task Force, which will meet for the final time at the beginning of December. Operations Board adoption is scheduled for December 18th, with Commission approval on January 7, 2016.