To: Chairman Cooke and the VRE Operations Board
From: Doug Allen
Date: September 18, 2015
Re: Referral of Preliminary FY 2017 VRE Operating and Capital Budget to the Commissions

Recommendation:

The VRE Operations Board is asked to authorize the Chief Executive Officer to refer the Preliminary FY 2017 VRE Operating and Capital Budget to the Commissions for their consideration, so the Commissions, in turn, can 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 2017 VRE Operating and Capital Budget is attached for review. The Budget Key Issues considered by the Operations Board in July are also provided as an attachment. Since July, VRE staff has met with the CAO Taskforce to discuss jurisdictional budget issues and concerns and to review current VRE budget projections.

During the FY 2017 budget year, VRE will operate 32 daily revenue trains and continue our safety and customer service outreach programs. The capital budget for FY 2017 will focus on state of good repair of equipment and facilities and replacement of the mid-day storage facility. Five expansion railcars will be received during the fiscal year and an additional nine will be under construction.
The major budget issues for FY 2017 are adequate and timely funding of the replacement facility for mid-day storage of rolling stock equipment, and meeting required and necessary increases to operating expenses.

**Discussion:**

The FY 2017 preliminary budget totals $119.8 million. The budget includes a 5% subsidy increase with no fare increase and has a current net unfunded amount of $2.8M. As in the past, VRE will submit a balanced budget to the jurisdictions in the beginning of December for evaluation prior to submission to the Operations Board later that month.

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:** Fare revenue is budgeted at $39.4 million with no fare increase recommended. A fare increase of 4% occurred at the beginning of FY 2016. Ridership is estimated at 19,900 Average Daily Riders (ADR) with service at the current budgeted level of 34 daily trains (32 revenue trains). ADR in FY 2015 was 18,547.

2. **Jurisdictional subsidy:** The subsidy is currently budgeted at $17.25 million, a 5% increase from FY 2016, which is the amount included in the Six-Year Financial Forecast. The last subsidy increase was in FY 2013 and the recommended amount of $17.25 is approximately equal to the amount paid in FY 2009.

3. **Federal funds:** Congress approved a short term extension to the current transportation authorization through May 2015. All indications are the full reauthorization will provide approximately $27M in formula funding for VRE in FY 2016 or about $900k less than the amount budgeted. The FY 2017 preliminary budget is based on the most recent funding level of $27M.

4. **State operating funds:** Commonwealth operating assistance of $9.2 million was received in FY 2016. The FY 2017 preliminary budget is based on $9.0 million.

5. **State capital funds:** Commonwealth capital funding is currently projected at either: a) 16% of the total project cost, when used as match to 80% federal funding; or b) one of the three funding tiers of 68%, 34% or 17% of gross project costs, regardless of the amounts of federal funding assigned to the project. State match for the replacement of the mid-day equipment storage facility is budgeted at the 34% level.

6. **Access fee funding:** Since FY 2015, DRPT has allowed VRE to apply for multiyear agreements for track access fee reimbursement. For FY 2017, reimbursements are currently being estimated at a level similar to FY 2016, with an 84% combined rate for both federal STP funds allocated through the state and a state capital match.
7. **Capital program:** Capital needs have been identified and prioritized and funding sources have been considered within the available federal formula funds and existing allocations through CMAQ, NVTA regional funds or other sources. The multi-year CIP will also include needed projects for which funding has not yet been identified. The largest capital expense is $21.8M for the equipment storage project. An annual capital reserve contribution of $3 million is also included.

8. **Contractual increases:** The CSX access fees have an annual contractual increase of 4%. Access fees paid to Norfolk Southern are based on changes to the AAR, a nationally published index of railroad costs, and increases to Amtrak access fees for FY 2017 will be based on a three year average of their annual costs, inflated to the budget year. Currently, Norfolk Southern and Amtrak increases are budgeted at 4%. The bulk of the Keolis contract costs increase by the annual change to the CPI, currently budgeted at 3%.

9. **Fuel costs:** Fuel expenses of $5.2 million are budgeted based on a per gallon cost of $3.25.

10. **Staff changes:** VRE staff recommends adding four FTE employees to various departments. As VRE has grown in size and complexity and as regulatory and performance requirements have increased, staff resources have not kept pace. The FY 2016 budget included three new permanent positions and the replacement of three contract positions with VRE staff positions. The following additional positions are included in the FY 2017 preliminary budget:

    - **Finance and Administration – Associate Accountant** - Responsible for various accounting functions, including accounts payable, payment and card processing and providing vital accounting and administrative support for other finance staff. The position is needed due to the expanding workload and duties within the finance and human resources functions within VRE.

    - **Facilities – Facilities Specialist** - Responsible for assisting with management of scheduled maintenance, repairs and state of good repair projects at all station and equipment maintenance facilities. With additional VRE stations, expansion of existing stations and additional equipment facilities coming online, additional VRE staff support is required.

    - **Project Implementation – Project Manager** - A licensed engineer who will manage the final design and construction of VRE capital improvement projects. The number and complexity of VRE capital projects is increasing as a result of System Plan 2040. An additional Project Manager is needed to handle the workload in a timely and effective manner.
• Project Implementation – Project Administrator - Responsible for administration of project controls (schedule and budgets), quality control, invoicing, procurement coordination, and routine reporting for VRE capital improvement projects as well as management of minor planning and design projects. The number and complexity of VRE capital projects is increasing as a result of System Plan 2040. The addition of a Project Administrator is needed to handle the workload in a timely and effective manner.

More detail on these positions will be provided as part of the presentation at the Board meeting. The preliminary cost of the four positions is $500k.

The major significant changes in the FY 2017 proposed budget compared to the adopted FY 2016 budget are as follows, including those issues discussed in more detail above:

**Revenue:**
- $821k increase in *Jurisdictional Subsidy* as described above
- $480k increase in *Fare Revenue* due to the projected level of ridership
- $1.6M decrease in *Other Sources*, primarily one-time funds used for local match to capital projects and one-time expenditures. One-time funds will be included in future drafts of the FY 2017 budget, as appropriate.
- $19M decrease in grant funds for CMAQ and REF projects included in the FY 2016 budget and the 68% funding received from the state for the railcar project; these decreases are offset by a decrease in project costs.
- Decrease of $900,000 to the budget for federal formula funds, as noted above.
- Increase of $900,000 to the $8.1M budgeted in FY 2016 for state operating assistance. (Actual amount received in FY 2016, as noted above, was $9.2M.)

**Operating and capital expenses:**
- $1.2M increase related to the estimated ongoing operating costs of the PTC system.
- $500k increase for the four positions noted earlier in this memorandum.
- $945k for contractual increases for train operations and maintenance, mid-day services and access fees.
- $255k increase in Facilities Maintenance for contractual and utility cost increases.
• Increases of $200k in safety and security for enhanced security contracts; $639k in IT for additional professional services and computer equipment upgrades; and $200k for increased costs for credit card processing related to fare media purchases.

• The total capital budget is projected at $34.4 million. Projects include:
  o $3.9 million for facilities infrastructure lifecycle maintenance
  o $4.9 million for equipment life cycle maintenance
  o $600k for replacement of security cameras
  o $21.8 million for mid-day and overnight train storage
  o $210k for security enhancements/associated transit improvements (a 5307 grant requirement)
  o $3.0 million annual contribution to the capital reserve

**Fiscal Impact – FY 2017 Budget:**

Additional draft budgets will be formulated during the fall and reviewed with the CAO Budget Task Force resulting in a balanced budget by December 2016.

Attached are the following:

• FY 2017 Key Budget Issues
• FY 2017 Sources and Use
• FY 2017 Summary Budget
Virginia Railway Express  
Operations Board

Resolution  
8C-09-2015

Referral of Preliminary FY 2017 VRE Operating and Capital Budget to the Commissions

WHEREAS, the VRE Master Agreement requires the VRE Operations Board submit to the Commissions a preliminary fiscal year budget by September 30 each year; and,

WHEREAS, the VRE Chief Executive Officer has provided the VRE Operations Board with the preliminary FY 2017 Operating and Capital Budget;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board refers the preliminary FY 2017 Operating and Capital Budget to the Commissions for their consideration; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends 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 2015 meeting for consideration and referral to the Commissions for adoption in January 2016.

Approved this 18th day of September 2015.

_______________________________
John C. Cooke  
Chairman

____________________________
Paul Smedberg  
Secretary
FY 2017 Key Budget Issues

The key issues described below apply to the development of the FY 2017 Budget and CIP and to the six-year financial plan, which provides a consolidated financial projection over a multi-year time frame.

**Key Issue #1: Level of service:** Some trains are currently at or over 100% capacity. Planned service improvements include the new Fredericksburg line train (fall 2015, in conjunction with the opening of Spotsylvania Station – revised from original) and the lengthening of peak trains as additional railcars are received.

The addition of the Fredericksburg line train scheduled to begin service in fall 2015 (revised from original) is expected to somewhat mitigate the overcrowding and the capacity issues at stations further up the line. The service will run with the legacy gallery railcars until additional new railcars are available mid-way through FY 2016. Five railcars were ordered in FY 2015 and an additional nine are budgeted in FY 2016. These additional 14 cars along with related infrastructure improvements to stations and storage yards will allow for the lengthening of existing peak trains and the conversion of a “deadhead” train on the Manassas line to revenue service in FY 2017.

**Key Issue #2: Maintenance and Replacement of VRE Assets:** Federal formula funds devoted to maintaining transit assets in a “State of Good Repair” are expected to provide for the ongoing capital cost of maintaining VRE assets over their life-cycle. However, replacement of the fleet at the end of the expected useful life of the equipment will require additional funding mechanisms.

The federal priority under MAP-21 of maintaining transit systems in a “State of Good Repair” has been included in the current versions of the next transportation authorization and the funds to adequately maintain equipment and facilities will be available from this source. The recently completed asset management strategy for facilities will be used to refine the costs included in the FY 2017 budget and CIP for this group of assets.

Because VRE’s current fleet of railcars and locomotives were purchased during a compressed time period, the replacement of the fleet at the end of its useful life is projected to be needed during a five-year period beginning in FY 2030, at an estimated cost of approximately $450M. Although this need falls well beyond the projection period in the annual budget and CIP, this issue was highlighted in the longer-term Financial Plan forecast.
**Key Issue #3: Midday Storage:** The construction of alternate midday storage facilities will require a significant funding commitment over the next several years.

VRE is currently hampered by limited midday track space at Union Station and must deadhead one trainset daily back to the Broad Run yard. In addition, the current contract with Amtrak includes provisions for Amtrak to reclaim VRE’s current storage space at the Ivy City yard for their own use during the next several years. As a result, VRE must proceed expeditiously to both increase midday train storage beyond what is currently available and to fully replace the storage yard now used at Ivy City.

A substantial portion of available federal formula funds were devoted to this project during the six-year time frame covered by the FY 2016 – FY 2021 CIP. However, recent cost projections indicate that additional funding will need to be identified.

**Key Issue #4: Capital improvements to support the VRE System Plan:** Capital improvements needed to meet the expected demand for VRE service and to increase railroad infrastructure capacity in the VRE service territory require the identification and commitment of funds beyond those currently available to VRE.

During FY 2014 the Operations Board and Commissions endorsed the VRE System Plan, which provides for the logical, incremental expansion of VRE infrastructure and service. The Financial Plan will detail VRE’s ability to maintain and expand service based on current and future fiscal restraints. An important component of future capital needs is the commitment to ensure the development of the railroad infrastructure in the CSXT territory.

NVTA regional funding continues to be available on a discretionary basis for certain VRE capital projects, but only for those located within the NVTA jurisdictions, which has highlighted the need for funding sources in the non-NVTA area served by VRE.

**Key Issue #5: VRE staff level:** VRE needs the staff resources necessary to operate and administer the commuter rail system safely, efficiently and in compliance with all federal and state requirements.

Since inception, the administration and oversight of the commuter rail system has been accomplished by a relatively small permanent staff, supplemented at times with assistance on a contract or temporary basis. As the system itself has grown and developed, along with a continuing increase in internal and external requirements, the staff level has not kept pace. The FY 2016 budget included three new permanent positions and the replacement of three contract positions with VRE staff positions. While the new positions have helped address needs, the FY 2017 proposed budget is expected to include the need for further additional staff resources.
Key Issue #6: Jurisdictional subsidy and the need for additional funding sources: The VRE service currently must be supported within the confines of jurisdictional budget constraints. The Financial Plan forecast is the first step in quantifying the need for additional ongoing funding sources to support the commuter rail service.

The subsidy level in FY 2017 will be evaluated based on a variety of factors, including contractual increases, expected changes to state and federal funding levels and the jurisdiction’s ability to contribute using fuel tax revenue or other sources of funding. The FY 2016 six-year financial forecast projected a subsidy increase of 5% for FY 2017. VRE will work with jurisdictional staff on formulating future subsidy levels and will fully utilize all existing other funding sources.

The total jurisdictional subsidy of $16.4 million has been flat for the last four years and the level has not changed appreciably over the last seven years. The limitations of the reliance on jurisdictional funding and the need for alternate ongoing funding will be addressed through the Financial Plan forecast, as noted above.
### FY17 Sources and Use

- **Leases:** 6,850,000
- **Amtrak:** 6,340,000
- **Total Access Fees:** 16,850,000
- **NS:** 3,480,000
- **CSX:** 7,030,000
- **Total:** 16,850,000

#### LEVEL OF SERVICE FOR FY17
- **34 trains**
- **19,700** average daily riders
- **Total Access Fees:** 16,850,000

#### USES OF FUNDS

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#### FY17 Subsidy (incl. + 5%)
- **Access lease funding:** 17,250,240
- **Local only Debt Service 60 Railcars:** 110,442
- **Fed-State/Lo Debt Service 60 Railcars:** 2,725,958
- **Grant & Project Management:** 650,000

#### Soft Capital Projects
- **Debt Service 11 Cabcars:** 1,931,357
- **Access lease funding:** 16,850,000
- **Debt Service 60 Railcars:** 1,947,113
- **Fed-State/Lo Debt Service 60 Railcars:** 2,725,958
- **Grant & Project Management:** 650,000

#### Federal Cap Program
- **Capital Projects/Earmarks:** 34,426,000
- **CMAQ Summary:** 0

#### State Amt
- **Debt Service 11 Cabcars:** 1,545,086
- **Access lease funding:** 8,425,000
- **Fed-State/Lo Debt Service 60 Railcars:** 2,180,766
- **Grant & Project Management:** 520,000

#### Subtotal
- **Capital Projects/Earmarks:** 21,222,020
- **CMAQ Summary:** 0

#### Federal Amt
- **Debt Service 11 Cabcars:** 1,545,086
- **Access lease funding:** 8,425,000
- **Fed-State/Lo Debt Service 60 Railcars:** 2,180,766
- **Grant & Project Management:** 520,000

#### State Amt
- **Debt Service 11 Cabcars:** 309,017
- **Access lease funding:** 5,729,000
- **Fed-State/Lo Debt Service 60 Railcars:** 436,153
- **Grant & Project Management:** -

#### Subtotal
- **Capital Projects/Earmarks:** 8,946,940
- **CMAQ Summary:** -

#### Soft Capital Projects
- **Debt Service 11 Cabcars:** 1,931,357
- **Access lease funding:** 16,850,000
- **Fed-State/Lo Debt Service 60 Railcars:** 1,947,113
- **Grant & Project Management:** 650,000

#### Federal Amt
- **Debt Service 11 Cabcars:** 1,545,086
- **Access lease funding:** 8,425,000
- **Fed-State/Lo Debt Service 60 Railcars:** 2,180,766
- **Grant & Project Management:** 520,000

#### State Amt
- **Debt Service 11 Cabcars:** 309,017
- **Access lease funding:** 5,729,000
- **Fed-State/Lo Debt Service 60 Railcars:** 436,153
- **Grant & Project Management:** -

#### Subtotal
- **Capital Projects/Earmarks:** 8,946,940
- **CMAQ Summary:** -
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<td>Other Sources</td>
<td>330,000</td>
<td>1,285,000</td>
<td>-</td>
<td>-</td>
<td>(1,615,000)</td>
<td>-100%</td>
</tr>
<tr>
<td>Federal/State Subsidy - Operating</td>
<td>28,979,851</td>
<td>50,092,960</td>
<td>3,437,040</td>
<td>1,034,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal/State Subsidy - Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating/Capital Reserves</td>
<td>740,000</td>
<td>25,000</td>
<td>-</td>
<td>-</td>
<td>(740,000)</td>
<td>-100%</td>
</tr>
<tr>
<td>Interest Income</td>
<td>20,000</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>82,116,611</td>
<td>54,815,000</td>
<td>82,602,451</td>
<td>34,426,000</td>
<td>(19,903,160)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating/Non-Operating Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance/Reserve/Mobilization</td>
<td>5,090,091</td>
<td>5,516,462</td>
<td>426,371</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Management</td>
<td>1,095,000</td>
<td>3,437,040</td>
<td>-</td>
<td>821,440</td>
<td>39,500</td>
<td>4%</td>
</tr>
<tr>
<td>Chief of Staff/Public Affairs</td>
<td>459,000</td>
<td>539,500</td>
<td>80,500</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>402,200</td>
<td>423,200</td>
<td>21,000</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Development</td>
<td>1,568,500</td>
<td>971,150</td>
<td>(597,350)</td>
<td>-38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and Communications</td>
<td>2,047,250</td>
<td>1,992,500</td>
<td>(54,750)</td>
<td>-3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget and Finance</td>
<td>3,116,000</td>
<td>3,496,500</td>
<td>380,500</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication and Information Technology</td>
<td>1,627,000</td>
<td>2,266,000</td>
<td>639,000</td>
<td>39%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering and Construction</td>
<td>718,800</td>
<td>885,100</td>
<td>166,300</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Maintenance</td>
<td>4,316,900</td>
<td>4,686,650</td>
<td>369,750</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>459,000</td>
<td>479,000</td>
<td>20,000</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Operations</td>
<td>11,176,500</td>
<td>11,603,500</td>
<td>427,000</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety, Security, and Emergency Preparedness</td>
<td>830,500</td>
<td>1,096,500</td>
<td>266,000</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRTC</td>
<td>104,000</td>
<td>104,000</td>
<td>0</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NVTC</td>
<td>80,000</td>
<td>80,000</td>
<td>0</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Train Operations</td>
<td>15,060,000</td>
<td>15,505,000</td>
<td>445,000</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amtrak</td>
<td>4,640,000</td>
<td>4,975,000</td>
<td>335,000</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance of Equipment</td>
<td>5,871,000</td>
<td>6,035,000</td>
<td>164,000</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amtrak Access Fees</td>
<td>6,390,000</td>
<td>6,340,000</td>
<td>(50,000)</td>
<td>-1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norfolk Southern Access Fees</td>
<td>3,340,000</td>
<td>3,480,000</td>
<td>140,000</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSX Access Fees</td>
<td>6,960,000</td>
<td>7,030,000</td>
<td>70,000</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating/Non-Operating Expenses</strong></td>
<td>75,351,741</td>
<td>-</td>
<td>78,639,562</td>
<td>-</td>
<td>3,287,821</td>
<td></td>
</tr>
<tr>
<td>CIP Expenditures</td>
<td>54,815,000</td>
<td>34,426,000</td>
<td>(20,389,000)</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service/Allowance for Doubtful Accts</td>
<td>6,764,870</td>
<td>6,764,870</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total CIP and Other Expenditures</strong></td>
<td>6,764,870</td>
<td>54,815,000</td>
<td>6,764,870</td>
<td>34,426,000</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total Expenses</strong></td>
<td>82,116,611</td>
<td>54,815,000</td>
<td>85,404,432</td>
<td>34,426,000</td>
<td>(17,101,179)</td>
<td></td>
</tr>
<tr>
<td>Difference by Fund</td>
<td>-</td>
<td>(2,801,981)</td>
<td>(2,801,981)</td>
<td>-</td>
<td>(2,801,981)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Difference</strong></td>
<td>-</td>
<td>(2,801,981)</td>
<td>(2,801,981)</td>
<td>-</td>
<td>(2,801,981)</td>
<td></td>
</tr>
</tbody>
</table>