To: Chairman Smedberg and the VRE Operations Board
From: Doug Allen
Date: November 17, 2017
Re: FY 2019 Budget Update

Summary:
The preliminary FY 2019 budget presented to the Operations Board in September included a funding gap of $1.6 million. As a result of revisions since that presentation, the funding gap in the FY 2019 budget has been reduced to approximately $0.4 million. VRE staff will continue to refine the budget assumptions and will present a balanced budget to the CAO task force in early December. Operations Board adoption of the budget is scheduled for December 15.

Introduction:
Staff presented the preliminary FY 2019 VRE Operating and Capital Budget to the Operations Board in September. Of the proposed $146.3 million budget ($82.1 million for operations, $57.4 million for the CIP, and $6.8 million for debt service and operating reserve), $1.6 million of projected expenses did not have an identified funding source. The budget includes a 3% increase in jurisdictional subsidy.

Since the September presentation, VRE finance and operations staff have revised key assumptions in the budget based on updated information and projections, reviews of proposed departmental expenditures, and identification of one-time expenses. As of early November, the budget gap in the preliminary FY 2019 budget has been reduced to approximately $0.4 million.

Budget Revisions:
The material revisions to the preliminary FY 2019 budget since September are summarized below.
Ridership and Revenue: Based on strong ridership to date in FY 2018, projected ADR for FY 2019 has been increased from 18,700 to 19,000, which corresponds to expected mid-week (Tue/Wed/Thu) ridership of over 20,000 per day. The associated increase in annual fare revenue is $660,000.

Fuel: Based on reductions in both the level and volatility of diesel fuel prices following the recent Atlantic hurricanes, as well as continued projections for only moderate price increases in the future, the budgeted average price for diesel fuel in FY 2019 has been reduced from $2.70 to $2.50 per gallon. Based on expected usage of 1.70 million gallons, this change reduces budgeted diesel fuel expenses by $340,000.

Insurance: Based on additional staff analysis as well as consultation with the CAO Task Force, the FY 2019 contribution to the insurance trust fund was reduced by $200,000 (from $4.2 million to $4.0 million), while still maintaining more than the required $10 million balance in the fund.

Amtrak Step-Up: The Amtrak step-up option provides additional commuting capacity for VRE riders, particularly during the afternoon rush hour. The current step-up cost is $12.00, of which the rider pays $7.00 and VRE pays $5.00. Amtrak will be increasing the step-up cost to $13.00 in FY 2019. Given the additional capacity VRE is currently adding with nine new railcars, management does not believe that a further subsidization of the step-up cost is needed. Incorporating this decision into the budget (which raises the passenger step-up charge to $8.00 and keeps VRE’s per-ticket subsidy at $5.00) results in fewer projected step-up riders and a net savings to VRE of $75,000.

Maintenance of Equipment: Based on additional information received from Keolis regarding costs associated with lengthened trains, the new L’Enfant storage tracks, and the Lifecycle Overhaul and Upgrade (LOU) Facility, total projected expenses for maintenance of equipment have increased by $534,000.

One-Time Expenses: $300,000 in one-time start-up costs associated with the new Positive Train Control (PTC) system will be funded using prior year surplus. Use of prior year surplus to fund this cost reduces the FY 2019 budget gap by $300,000.

Revisions After Departmental Budget Review: Following a detailed review of the initial proposed departmental budgets, expenses have been reduced by a net $169,000 as a result of a series of small increases and decreases related to consulting, personnel, and contractual costs.

Capital:

The six-year capital plan is still under review but has not changed significantly since the version in September. Most revisions are related to updated project schedules, as well as a breakout of the Broad Run Expansion (BRX) project into its various components as distinct
projects. The Capital Committee will be reviewing CIP projects and funding issues at its meeting following the November Board meeting.

**Closing the Remaining Gap:**

VRE staff will continue to revise and update the budget in conjunction with the CAO Task Force. The following updates to revenues and expenses are expected to be considered to close the remaining budget gap:

- Contractual increases in train operations and maintenance of equipment costs are based on changes in the Consumer Price Index (CPI). The relevant CPI data will be available in mid-November. The preliminary budget is based on an assumed 3% increase, but the actual figure is expected to be lower, which will be reflected in the final budget.
- Increases to the Norfolk Southern access agreement are based on changes in the Association of American Railroads (AAR) index. The preliminary budget is based on an assumed 4% increase, but the actual figure is expected to be lower, which will be reflected in the final calculation of both costs and access fee reimbursement revenues.
- Ongoing review of potential one-time expenditures.
- Ongoing review of departmental operational costs.
- As a final measure, if necessary, a reduction of the $3 million annual contribution to the VRE Capital Reserve established in FY 2015 or a reduction in the 2% budgeted contingency could be considered.

VRE staff will present a balanced budget to the CAO Task Force for their review in early December. Operations Board adoption of the FY 2019 budget is scheduled for December 15, with approval by the Commissions on January 4, 2018.