

AGENDA ITEM 9-A
ACTION ITEM

TO: CHAIRMAN KAUFFMAN AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: JUNE 15, 2007

RE: FY 2009 BUDGET GUIDELINES

RECOMMENDATION:

The VRE Operations Board is being asked to direct staff in the development of the FY 2009 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.

In light of major funding considerations and changes to VRE governance, the FY 2009 budget process has been modified to focus more explicitly on substantive issues that have a continuing impact on service and subsidy levels and to present budget information in a program format. As part of this new process, the jurisdictional CAO Budget Task Force met on May 30 to review the fleet management plan. A second meeting of the Budget Task Force is scheduled for June 26 to discuss ridership projections, insurance costs and future NVTA funding. The goal is to permit the Budget Task Force to focus on material issues early in the budget process.

FY 2009 BUDGET ISSUES AND ASSUMPTIONS

- **HB3202 Implications.** Dedicated annual local funding of \$25 million for VRE projects, via HB 3202, has been authorized as part of the state transportation package for Northern Virginia, subject to NVTA approval. Recommendations for collecting and distributing those funds have been developed by a series of multi-jurisdictional working groups. Meetings between VRE staff and staff from the NVTA jurisdictions that are part of VRE will be held to discuss how these prospective funds will be spent during the upcoming fiscal year. The NVTA decision and outcome of these meetings will have a material effect on both jurisdictional subsidy levels and the funding available for system improvements in FY 2009 as well as future years.
- **Budget Alternatives.** Because of the unknowns associated with the HB3202 funding and the timing of collections by NVTA, two budget alternatives will be produced for consideration. One alternative will show receipt of some or all of the NVTA funding and one alternative will show no availability of these additional funds.
- **Critical Costs.** The FY 2008 Six Year Financial Forecast projected a shortfall for FY 2009 of \$2.9M above the FY 2008 subsidy level. The forecast did not include substantial funding for new locomotives or additional contributions to the insurance trust fund in the amounts now contemplated. Railcar maintenance costs need to be reviewed given the transition of the fleet from older coaches to new Gallery coaches starting in FY 2009. Locomotive maintenance requirements will continue to be high until the replacement of this equipment with new locomotives. Finally, projections on insurance premiums, diesel fuel costs, and facility and equipment maintenance requirements will be reassessed.
- **Ridership Projections.** A critical review of ridership projections will be needed given ridership trends during FY 2007, the option of lengthening additional trains, and the potential of adding trains as railroad MOU projects are completed. Ridership projections will need to be constrained given parking shortages at key high-use stations.
- **State Funding.** State funding for operations and capital match is expected to be higher than previously anticipated in FY 2009 as the result of the transportation bill.
- **Number of Trains.** Currently, the train schedule is projected to increase from 30-trains to 34-trains, per the FY 2008 Six Year Financial Forecast. A review of the cost and expected fare revenue of adding trains will be made during the budget process.

- 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 2009 budgeting scenarios with the CAO Budget Task Force. The next meeting is scheduled for June 26, 2007.
- Present preliminary budget forecasts to the Operations Board in August 2007.
- Begin review of all FY 2009 revenue and cost assumptions in September 2007 with CAO Budget Task Force.

FISCAL IMPACT:

There is no fiscal impact related to the development of the FY 2009 budget.

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**RESOLUTION
9A-06-2007
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 2009 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
- Examine ways to utilize the NVRTA local funding to maximize operating efficiencies and system effectiveness
- Investigate issues with passenger ridership and take measures to increase overall ridership
- Explore budget options that could provide for additional train service during FY 2009
- Investigate all means to minimize any FY 2009 operating and capital shortfalls