

AGENDA ITEM 9-A
INFORMATION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: APRIL 18, 2008

RE: FY 2008 YEAR-END FINANCIAL PROJECTION

Each month, the VRE Operations Board receives financial information in summary form that shows year-to-date actual to budgeted fare revenue, grant revenue and operating expenses. In December of each year, a revised budget for the year is prepared, based on the most current information as of that date. In December of 2007, the amended FY 2008 budget was presented to the Operations Board.

The information below is a projection of year-end revenue and expenses for FY 2008 and the implications of this projection on FY 2009.

YEAR-END PROJECTION

The results of operations at year-end are anticipated to be a loss of \$2 million. Major causes are as follows:

- Diesel fuel costs are estimated to be nearly \$4.4 million, an increase of \$462,000 from the revised budget.
- Yard electricity costs are expected to be higher than budget by \$160,000.
- The recent Amtrak contract settlement requires lump sum payments in FY 2008 and FY 2009 along with salary increases and other changes. We estimate these additional costs to be \$500,000 in FY 2008 and \$1 million in FY 2009.
- Repairs and maintenance costs are expected to be \$590,000 over the amount budgeted. A major factor was \$350,000 for repairing a locomotive that caught fire; we are pursuing insurance reimbursement for this loss. However, the deductible on our property insurance is \$250,000.
- Revenue from federal and state grants is less than the amount budgeted by \$3.1 million. A large part of this amount is matched by less than budgeted grant-

funded expenses, including equipment lease costs and debt service on the 50 railcar project. In addition, older state grants with lower percentage match reimbursements had to be used for a part of the year. On the positive side, this will leave higher percentage match funds available for other purposes.

- Savings of approximately \$675,000 in administrative costs and \$140,000 in insurance costs and additional estimated fare revenue increase of \$300,000 have provided a partial offset to the higher costs described above.

The chart below summarizes actual to budget data by major category:

FY08 Year End Operating Budget Projection (in millions)				
Description	Revised Budget	Current Estimate	Variance	% Chg
Fare Revenue	21.3	21.6	0.3	1.3%
Local Subsidy (1)	12.8	12.8	-	0.0%
Grant Revenue	26.6	23.2	(3.4)	-14.7%
Other Revenue	0.7	0.9	0.2	20.0%
Total Revenue	61.5	58.5	(3.0)	-5.1%
Operating Expenses	49.0	49.2	(0.2)	-0.3%
Debt Service and Other	12.5	11.3	1.2	10.4%
Total Expenses	61.5	60.5	1.0	1.7%
Net Income (loss)	-	(2.0)	(2.0)	

(1) The local subsidy amount shown here is the amount needed for operations; total subsidy is \$13.4M.

The source of funds for this net shortfall will have to come from VRE's operating reserve.

IMPLICATIONS FOR FY 2009

Many of the higher costs in FY 2008 have implications for FY 2009 as outlined below:

- As of April 17, average fuel costs are expected to be \$3.36 per gallon in FY 2009, compared to the budgeted amount of \$2.38 per gallon, for a total shortfall of \$1.9 million. Fuel projections are very volatile and the amounts change daily. Earlier in April, the FY 2009 projection was \$3.14 per gallon. We will continue to revise our projections.
- As noted above, Amtrak costs are expected to be \$1 million over budget as the result of contract settlement costs. This preliminary estimate will be revised when we receive detailed cost information from Amtrak.

However, we believe that for FY 2009, these higher costs may be substantially offset by higher grant and fare revenue. DRPT has released their draft funding plan for operating and capital assistance in FY 2009. The formula assistance is higher than VRE's budgeted amount by approximately \$1 million and capital assistance by about \$1.4 million. We are still reviewing these numbers. In addition, based on our current ridership levels, we expect fare revenue to be higher than budgeted.

We will provide updated estimates for FY 2009 as we receive more information.