

ITEM 10-F

(15 PAGES)

**POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION**

RESOLUTION

MOTION: _____

**RESOLUTION NO. 08-11-____
OFFICIAL COMMISSION MEETING
NOVEMBER 6, 2008**

SECOND: _____

RE: UPDATE AND RECOMMENDATION ON FY 2009 MID-YEAR FARE INCREASE

WHEREAS, a review of the FY 2009 budget in conjunction with the FY 2010 preliminary projections indicates the need for a mid-year fare adjustment in the current year to cover increasing costs; and

WHEREAS, the VRE Operations Board authorized a fare increase of up to 15% on which public hearings were held; and

WHEREAS, passengers and interested parties commented via e-mail, letter, fax, and in person at public hearings; and

WHEREAS, staff recommends a mid-year fare increase of 7% built on an average daily ridership of 15,400 average daily riders; and

WHEREAS, VRE recognizes that local governments cannot support an increase in the FY 2010 local subsidy; and

WHEREAS, the VRE Operations Board recommends the following action.

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission does hereby authorize the VRE Chief Executive Officer to implement a 7% mid-year fare increase for FY 2009, effective January 1, 2009.



Virginia Railway Express Operations Board

AGENDA ITEM 9-H ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: OCTOBER 17, 2008

**SUBJECT: UPDATE AND RECOMMENDATION ON FY 2009 MID-YEAR
FARE INCREASE**

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to implement a 7% mid-year fare increase for FY 2009, effective January 1, 2009.

A presentation will be made at the Operations Board meeting on the details behind this recommendation and impact on FY 2010 budget.

DISCUSSION:

In August, VRE staff presented a FY 2009 budget update and preliminary FY 2010 budget to the Operations Board. As a result of material shortages in the budget for fuel, Amtrak labor settlement expenses, and increased locomotive maintenance costs the net shortfall for FY 2009 was estimated at \$1.6 million and the initial need for funds in FY 2010 was estimated at \$8.6 million, including the potential one-time mobilization cost to employ a new service provider.

After extensive discussion at the Operations Board meeting, VRE solicited public comment via e-mail, public hearings, letters and faxes on a mid-year FY 2009 fare increase of up to 15% and a FY 2010 fare increase of up to 10%. The comment period began on August 29th and concluded on October 8, 2008. VRE received 296 e-mails, 44 people attended the public hearings, and 1 individual made his comments by phone. In addition to comments regarding the change in

fares and possible service cuts, passengers also took the opportunity to relay opinions regarding on-time performance, elimination of the discount for seniors, elimination of the FRC program vs. fare increase, and adding more service/capacity. A summary of the comments received is shown below:

Summary of Comments	Number of Comments
Positive comments on a reasonable increase to fares	78
Commented that the need to increase fares was understandable	37
Negative comments on proposed fare increases	107
Opposed possible service cuts to mid-day trains	196
Preferred service cuts over fare increase	15
Disagrees with VRE having to pay Amtrak Settlement Costs	5
Commented that VRE needs to improve overall service	10

Note: Summary of comments totals more than number of comments as in some cases, more than one topic was addressed.

During the period since the August meeting, VRE staff has further refined the projections for FY 2009. Revisions to the FY 2009 budget as presented in August are as follows:

- Fuel costs were originally projected to exceed budget by approximately \$3 million in FY 2009. Current fuel prices have caused the shortfall to be projected at \$2.8 million. This estimate will continue to be reviewed over the next several months.
- Because of increased ridership systemwide, fare revenue is expected to exceed budget by approximately \$2.8 million. This estimate is based on a revised average daily ridership projection of approximately 15,400 riders and a 7% fare increase effective January 1, 2009. Ridership projections will continue to be monitored.
- Staff recommends a 7% fare increase, based on analysis of the estimated relationship between fare rates, ridership, and revenue, as indicated in the table below and from the public comment. The analysis indicates that a fare increase above 7% reduces ridership significantly and thus minimizes the incremental fare revenue.

Scenario	Estimated Ridership	Estimated Revenue
Adopted budget	14,700	21,500,000
No mid-year increase	15,550	23,700,000
Mid-year increase of 7%	15,400	24,300,000
Mid-year increase of 15%	14,900	24,400,000

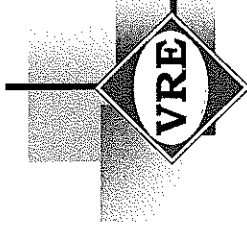
- The one-time reduction in insurance premium costs of \$700,000 in the current year has been reflected in the FY 2009 estimate. These funds will be used to defray the costs of the retroactive wages that will be owed as part of the Amtrak labor settlement.
- The federal funds that were originally programmed for debt service costs for the Kawasaki railcars have been shifted to the purchase of locomotives.
- All other projections have remained substantially the same

FISCAL IMPACT:

The net impact of these changes is \$1.27 million to reestablish VRE's operating reserve which was depleted in FY 2008 with the rapid increase in diesel fuel prices from \$2.13 to \$3.26 per gallon. Given the uncertainty and volatility of the fuel, insurance, and maintenance costs, the operating reserve must be restored to the FY 2005 level to insure a financial safeguard during this uncertain financial period.

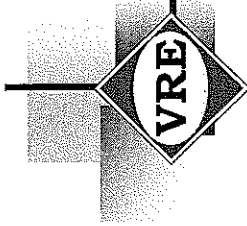
**FY 2009 Mid-Year Fare Increase
Proposal and Update on
FY2010 Budget**

*Dale Zehner
October 17, 2008*



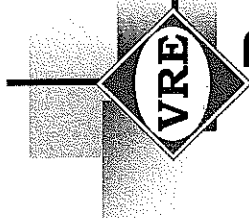
Status

- In August, presented budget shortfalls:
 - \$1.6M in FY 2009
 - \$8.6M in FY 2010
- Held 7 public hearings
- Today, a proposal will be made regarding the FY 2009 mid-year fare increase
- Provide update on FY 2010 budget



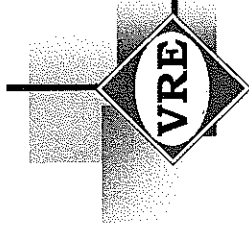
The Good News!

- Ridership is up!
- Revenue is up!
- Fuel is down!
- On-time performance is up!
- All new cars are in service!
- Manassas and Burke garages are open!
- Customer Satisfaction survey results are up!



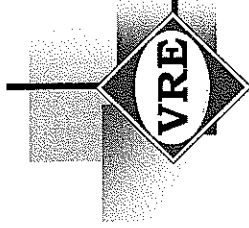
Working to Improve Situation

- Budget shortfall for FY 2009 can be addressed with 7% fare increase, rather than 15% as advertised in hearings
- FY 2010 shortfall has been reduced to less than \$1M
- VRE will eliminate the remaining shortfall before December meeting
- Maintain commitment to keep local subsidy level the same as last year



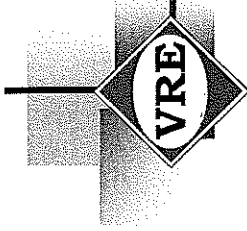
FY 2009 Revisions

- Fuel costs originally projected to exceed budget by \$3M - revised to \$2.8M and will continue to review
- Assuming a 7% mid-year fare increase, fare revenue will exceed budget by \$2.8M
- Provides \$1.3M increase to operating reserve depleted in FY 2007 and 2008



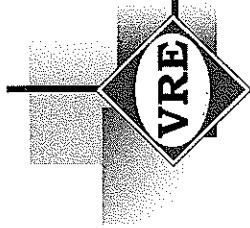
Why not 15%?

- Must sustain ridership levels and fare revenue
- A 15% increase reduces ridership with minimal incremental fare revenue
- Recovering from service issues in 2005 and 2006
 - Prior highest ridership month was May 2005 – 15,476
 - Not hit again until June 2008 – 15,626
 - September 2008 – Our highest month ever at 16,215



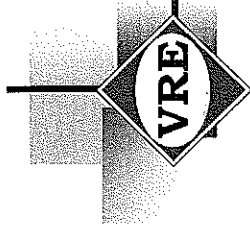
Public Hearings

- Largest public comment turnout since 2005
 - 296 emails
 - 44 attended hearings
- Greatest number of comments opposed mid-day train elimination
- Second greatest number opposed magnitude of fare increase



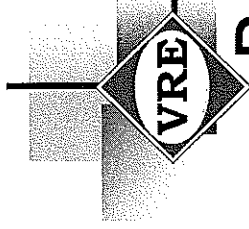
Preliminary FY 2010 Budget

- In August, budget had \$8.6M shortfall
- Current shortfall is under \$1M
- Many unknowns still exist
 - Fuel – declining but do not know FY 2010 number
 - State Funding - capital match estimated at 30% and operating formula funding estimated at \$10.0M
 - Amtrak labor settlement – amount unknown



Work Underway

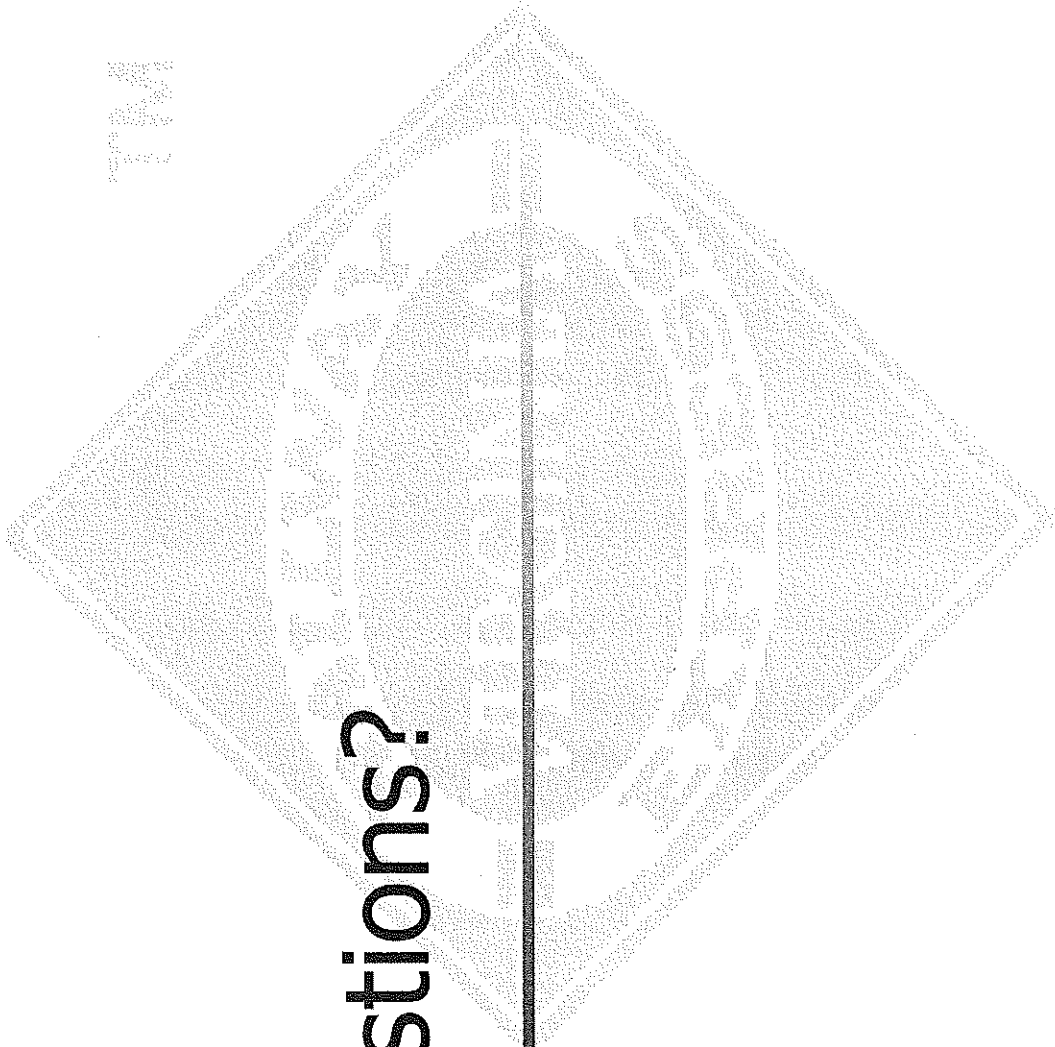
- Over the next two months, the shortfall will be eliminated and local subsidy kept at FY 2009 level - \$17.3M
- Do not want to rush decision due to volatility of the unknowns



Next Steps

- Recommend Board and Commissions approve 7% fare increase, effective January 2009
- Continue working to reduce FY 2010 shortfall with CAO Budget Task Force
- Presentation will be made to Operations Board in December regarding FY 2010 budget

Questions?



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