

8. INSTITUTIONAL AND ORGANIZATIONAL ISSUES

VRE is outgrowing its original organizational framework – both in terms of the size and complexity of its operation, and its geographic extent. It has reached and surpassed the level of ridership for which it was originally designed. Normally, institutional and organizational issues would not be addressed directly in a plan such as this, which is intended primarily to address technical issues of ridership demand, railroad operations, infrastructure requirements and costs. However, part of the task assigned to VRE staff by the VRE Operations Board was to examine alternative funding sources for capital and operating requirements as well as alternative reporting structures for the operation of VRE. The study's technical work has led to the conclusion that the *status quo*, both in terms of VRE's operations and its financing structure, cannot be sustained into the future. Consequently, as the VRE Operations Board and the Commissions evaluate the Strategic Plan and set the course for VRE's future growth, they will need to engage in parallel discussions about how to fund that growth.

As the VRE continues to grow, it will evolve in several ways from a relatively modest start-up operation into a mature commuter railroad. If it is to preserve its excellent relationship with its customers and maintain the high quality of service that those customers have come to expect, the jurisdictions that fund VRE will need to step up to a significantly higher level of ongoing annual investment – both in terms of capital projects and operating subsidies. In the current environment, the local jurisdictions that make up VRE's governing commissions contribute a significant share of the annual capital and operating support for the VRE, but their ability to absorb a major increase in funding support for VRE is limited.

A general fact about public transportation service is that as ridership grows, so does the total subsidy required to cover the system's operating costs, since passenger fares cover less than two-thirds of the cost of running the trains. VRE outperforms most other commuter railroads in terms of the share of operating costs that it recovers from fares and other revenues. Carrying additional riders may create some economies of scale that can decrease the average subsidy per passenger trip, but the total annual subsidy dollars required still tends to increase as both ridership and the quantity of service increase.

Most of the easy and inexpensive capital projects to increase VRE's capacity have already been done. The next generation of projects will be more difficult and costly than those in the past – including parking structures, new station platforms with pedestrian bridges and elevators, new track construction, new and expanded train storage yards requiring acquisition of costly downtown property, and new facilities for VRE rolling stock maintenance. Compared with the cost of new highway or HOV lane construction (\$10+m/mi.), or the cost of adding/extending Metrorail lines (\$100+m/mi.) or building light rail lines (\$30+m/mi.), as estimated from recent projects in the region that have been either implemented or studied, VRE expansion at about \$5m/mi. can be considered relatively cost-effective. By investing in the VRE, the region will receive a tangible benefit in terms of rush hour people-moving capacity and mobility choice in the corridors served by VRE.

Many of the required projects will be eligible for Federal funding, and the costs of some projects will be able to be shared with other entities that benefit from them.

Nevertheless, the participating jurisdictions could be faced with securing the local match for a capital program in the range of \$60 to \$70 million or more per year. Making the financial commitments necessary to support higher levels of both capital and operating support for VRE will be a large challenge for the counties and municipalities that have become used to a total annual capital and operating subsidy that has remained under \$6 million for the last several years. Policy decisions will need to be made concerning the extent to which local support can be increased, the extent to which the pace of investment will need to be slowed in response to constrained funding, and the extent to which alternative sources of funding can be tapped.

Among the many possible ideas for alternative funding are several that could have an impact on the way VRE is organized, governed and financed. Travel demand pressures and local political pressures to extend and expand VRE service to new markets offers an opportunity for VRE to change the way in which it receives funds and increase the number of entities with a financial stake in VRE. The extension of VRE service to Virginia counties beyond the boundaries of the VRE commissions – such as Fauquier and Spotsylvania – will drive the need to find ways for these counties to become formal stakeholders and funding participants. One option is working within the existing commission structure – either changing the make-up of the existing commissions or creating one or more additional commissions.

It may be appropriate to adjust the role of the Commonwealth of Virginia in funding the expansion and ongoing operation of VRE, depending upon VRE's potential role in providing longer-distance passenger rail services in the Richmond and Charlottesville corridors or commuter rail services elsewhere in Virginia. Even within the existing VRE territory, several of the rail capacity projects included in the VRE Strategic Plan would have economic benefits for Virginia that extend beyond VRE's core commuter rail business – including benefits for long-distance high-speed rail service, and benefits for the freight railroads and shippers within Virginia that use the railroads.

Many in the region have advocated integrating or better coordinating the two independent commuter rail operations serving Washington, VRE and the MARC system in Maryland. Run through service is possible with capital investment, new track and terminal agreements with the host railroads, and an agreement between the two operating agencies at a minimum. Commuter service integration across state boundaries also raises broader institutional and organizational issues, posing constraints and creating opportunities that are beyond the scope of this work effort to explore – but which must be investigated before informed policy decisions can be made about run-through service. In any case, a strong partnership will be needed between Virginia and Maryland to advocate, fund and implement necessary and mutually-beneficial improvements to regional rail infrastructure.

The Federal government also has a strong interest in the service that the VRE provides and has a legitimate role to play in guiding its future – above and beyond the Federal Transit Administration's traditional role as regulator and conduit for Federal funds. Over half of VRE's customers work for agencies of the Federal government. The commuter rail network also links many Federal facilities – both military and civilian, such as Quantico Marine Base and Fort Belvoir in Virginia, Fort Meade and the Aberdeen Proving Ground in Maryland, the US Patent Office complex in Alexandria, and the Internal Revenue Service in New Carrollton, MD. The mobility offered by the regional rail system also has a role to play with respect to homeland security in the



nation's capital. On September 11, 2001, the commuter rail system was limited in its ability to aid the evacuation of the Capital. The Federal Government's interests in VRE should be explored as the rail system expands and evolves.

The proposed Washington-area train dispatching and operational control center is a project that offers significant benefits to all stakeholders in the region's rail system, including the states of Maryland and Virginia, the Federal Government, the freight railroads, and freight shippers in the region. Such a project will likely be linked to other major capital investment initiatives and would be more difficult to implement by a fragmented group of disparate agencies working independently than by a regional rail consortium or authority acting on behalf of the full range of rail-related interests in the region.

Regardless of the path chosen, VRE's future organization and governance structure should emphasize protecting perhaps one of its greatest assets – and the strong personal relationship that VRE management has forged with its riders, and a commitment to customer service of the highest quality.

9. FINANCIAL CHARACTERISTICS OF THE PLAN

Annual Operations and Maintenance Costs

For each phase of increased VRE service through 2025, annual operations and maintenance costs were estimated. Table 9.1 presents these estimates, in year 2003 dollars. These estimates include all operating costs, including access fees paid to the host railroads, but they exclude estimated annual debt service and operating reserve funding. The financial and subsidy calculations in the next section incorporate these factors. A range of estimates is presented for the Phase 2 and Phase 3 plans. The low end of the range corresponds to a rush-hour focused service with limited off-peak service (similar to today's operation) and ridership towards the low end of the spectrum. The high end of the cost range includes additional off-peak services and ridership towards the high end of the projected range.

The estimates assume a contract operation similar to that currently provided by Amtrak. One or more contracts are assumed to cover operation of the trains, on-board ticket inspection and maintenance of equipment. These estimates were based on historical experience, adjusted to reflect the likelihood of future increased costs in some areas and potential economies of scale in other areas as the overall volume of service and passenger traffic grows.

Costs for train and engine crews were factored up from historical rates based on the projected increase in number of train crews required. This number does not necessarily rise linearly with the number of trainsets in service in Phase 2 and Phase 3, since increasing levels of reverse-peak and off-peak service are assumed to be provided, and several (but not all) trainsets will require both a morning and an afternoon/evening crew, in cases where the trainset makes multiple round trips over the course of a day. Labor and material costs for maintenance of equipment are