To: Chairman Milde and the VRE Operations Board

From: Doug Allen

Date: December 19, 2014

Re: Referral of the Revised FY 2015 and Recommended FY 2016 VRE Operating and Capital Budgets to the Commissions and Localities

Recommendation:

The VRE Operations Board is being asked to adopt the revised FY 2015 VRE Operating and Capital Budget and the recommended FY 2016 VRE Operating and Capital Budget and refer them to the Commissions for their consideration and subsequent referral to the jurisdictions for their formal review and adoption.

Background:

In accordance with the VRE Master Agreement, which outlines the process for annual budget approval, the preliminary FY 2016 VRE Operating and Capital Budget was initially prepared for review at the September VRE Operations Board. Since that time, it has been discussed at every monthly meeting of the Operations Board and the CAO Taskforce. The CAO Taskforce met on December 10th to present their final recommendations and discuss VRE responses to those recommendations.

Discussion:

The FY 2016 budget totals $128.4 million. Based on the VRE Operations Board discussions, the recommended budget (Option A) includes a 4% fare increase and no subsidy increase.
An alternative to this (Option B) would include a 3% fare increase and a 2% subsidy increase. Information on this alternative is presented in this report. The major assumptions for the recommended budget are as follows:

- Jurisdictional subsidy of $16,428,800; no increase compared to the FY 2015 level
- A 4% fare increase and a projected average daily ridership of 19,300 passengers, which results in a total of $38.9M in fare revenue
- Federal 5307 and 5337 (State of Good Repair) funding of $21.1 million
- Tiered capital matching funds from the State of the non-federal share for new projects
- State operating funds of $8.1 million, which is a 10% decrease to the FY 2015 funding level of $9.0 million
- Fuel estimated at $3.25/gallon for a total cost of $5.3 million
- Grant funding from all sources for track access costs at 84%; equal to the level provided in FY 2015
- Addition of three FTE employees to the departments of equipment operations department to replace contract staff currently in the material management function at the Crossroads yard – proposal is cost neutral. Additionally, three FTE employees in Finance, Contracts, and Safety and Security.

The multi-year CIP includes both **programmed** and **unprogrammed** projects. The **programmed** projects include those that are funded through federal formula grants received annually by VRE; through already allocated funds from other programs, such as CMAQ or NVTA; or through other expected sources. The **unprogrammed** projects are those that are pending a discretionary allocation by a funding authority or for which a funding source has not yet been identified.

During the next year, a Financial Plan will be developed which will compare the capital and operating needs associated with the implementation of System Plan 2040 and compare these needs to available funding sources. The Financial Plan will quantify the need for new funding streams and evaluate alternatives, including additional debt financing. No new debt financing is included in the current CIP, pending the development of the Financial Plan.

The programmed capital projects for FY 2016, including required local match, are outlined below. Funding sources are FTA formula funds, unless otherwise indicated.

- Rolling stock (nine expansion railcars) - $23.6M
- Facilities infrastructure - $5.4M
- Equipment storage - $3.4M
- Capital reserve contribution - $3.0 (local funds only)
- Lorton platform improvements - $1.5M (CMAQ)
- Rippon platform improvements - $2.3M (CMAQ)
- Brooke/Leeland Second Platform - $5.0M (REF)
The FY 2016 budget exceeds the prior year budget by $442k; or exceeds the FY 2015 budget by $2.4M net of the one-time mobilization expense. Material expenditure line item changes are noted below; adjustments are in comparison to the FY 2015 adopted budget.

- **Train Operations/Maintenance of Equipment** are budgeted at a net increase of $700k to reflect a 1.7% increase in accordance with the CPI contract requirements plus costs for the Fredericksburg line train.
- **Access fee costs** increased by $1.1M to reflect an estimated increase to the AAR index for Amtrak (estimated) and Norfolk Southern (actual) and the contractual increase of 4% for CSX plus the additional Fredericksburg line train for three months.
- **Program Development** increased by $620k to reflect funding for additional consulting and other professional services, primarily one-time costs funded by the Project Development capital budget.
- **Facilities Maintenance** increased as reflected by the initial results of the condition assessment of all facilities. Revised by $620k primarily due to increases in:
  - Repairs and maintenance for stations and facilities of $350k
  - The transfer of budget from the Passenger Support Services for office maintenance of $110k
  - Additional rent for the Alexandria office expansion of $120k
- **Non-Operating Expenses** decreased by $3.0M to reflect:
  - The elimination of the one-time funding of $2.0M in mobilization
  - The elimination of the operating reserve contribution of $550k
  - Reduction in insurance liability premiums of $250k
  - Reduction in the contingency budget of $200k

The budget also includes a six-year financial forecast for the period FY 2015 through FY 2021. A six-year forecast was prepared which includes a 5% fare increase in FY 2018 and FY 2020 and a 5% subsidy increase in FY 2017.

The FY 2016 budget assumes no subsidy increase. The subsidy is a result of the October 2014 master agreement survey. The projected FY 2016 jurisdictional subsidy for option A is as follows:
Another alternative would be to reduce the fare increase from 4% to 3% and increase the subsidy by the difference, which would be approximately 2%, resulting in the projected jurisdictional subsidy for Option B as follows:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>FY 2015 Subsidy</th>
<th>FY 2016 Subsidy</th>
<th>Net Inc/(Dec)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince William County</td>
<td>$5,485,333</td>
<td>$5,309,674</td>
<td>(175,659)</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Fairfax County</td>
<td>4,852,953</td>
<td>4,847,284</td>
<td>(5,669)</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Stafford County</td>
<td>2,689,391</td>
<td>2,855,607</td>
<td>166,216</td>
<td>5.8%</td>
</tr>
<tr>
<td>Spotsylvania County</td>
<td>1,401,382</td>
<td>1,303,888</td>
<td>(97,494)</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Manassas</td>
<td>686,944</td>
<td>766,491</td>
<td>79,547</td>
<td>10.4%</td>
</tr>
<tr>
<td>Manassas Park</td>
<td>401,762</td>
<td>576,699</td>
<td>174,937</td>
<td>30.3%</td>
</tr>
<tr>
<td>Fredericksburg</td>
<td>581,244</td>
<td>439,366</td>
<td>(141,878)</td>
<td>-23.2%</td>
</tr>
<tr>
<td>Alexandria</td>
<td>133,894</td>
<td>133,894</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Arlington</td>
<td>195,897</td>
<td>195,897</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Subsidy</strong></td>
<td>$16,428,800</td>
<td>$16,428,800</td>
<td><strong>0</strong></td>
<td><strong>3.3%</strong></td>
</tr>
</tbody>
</table>

FY 2015 Amended Budget

The FY 2015 budget has been revised to reflect current projections for revenue and expenses. The major changes are as follows:

- Decreased state operating funds in the amount of $1.6M
- Transfer from prior year surplus of $1.1M due to expansion of the Alexandria office and station security cameras
- Capital projects increased by $900k. Studies are funded from project development funds adopted in the FY15 budget. Projects include:
  - Long Bridge study (match): $300k
  - Core Capacity study (match): $125k
  - Security cameras: $500k
- Operating costs were decreased by a net amount of $1.2M, primarily due to the following:
  - Train Operations, Track Access, and Equipment Operations decreased by $1.4M due to revising the start date of the Fredericksburg line train from Oct 2014 to January 2015
  - Facilities increased by $550k due to office expansion (rental costs of additional office space plus improvements to the communications room)
  - Safety and Security costs increased by $150k for Broad Run station foliage removal in accordance with the recommendation of the Threat and Vulnerability Assessment and for 24/7 security coverage at the train yards
  - Decrease in Contingency by $450k
  - Increase in salaries and fringes by $80k to reflect the inclusion of the proposed positions from the FY 2016 budget for three months of FY 2015
WHEREAS, the VRE Master Agreement requires that the Commissions be presented with a fiscal year budget for their consideration at their respective January meetings prior to the commencement of the subject fiscal year; and,

WHEREAS, the VRE Chief Executive Officer has provided the VRE Operations Board with the FY 2016 Operating and Capital Budget within the key issues developed in concert with the jurisdictional chief administrative officers; and,

WHEREAS, the FY 2016 budget proposes a 4% fare increase and no jurisdictional subsidy increase; and,

WHEREAS, the FY 2016 Six Year Financial Forecast states a subsidy increase is projected for FY 2017; and,

WHEREAS, VRE staff recommends a budget built on an average daily ridership of 19,300 and 34 trains;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby recommend that the Commissions adopt the revised FY 2015 and recommended FY 2016 VRE Operating and Capital Budgets and forward the FY 2016 budget to the local jurisdictions for inclusion in their budgets and appropriations in accordance with the Master Agreement; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Executive Directors of both PRTC and NVTC to submit to the Transportation Planning Board of the National Capital Region and to the Federal Transit Administration or other federal agencies, the appropriate Transit Improvement Program and grant applications for FY 2015 and FY 2016; and,
BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Executive Director of NVTC to submit to the Commonwealth the approved budget as part of the FY 2016 state aid grant applications; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer of VRE to submit appropriate projects to the Northern Virginia Transportation Authority or other funding authorities on behalf of the Commissions.

Approved this 19th day of December 2014

__________________________________________  
Paul Milde  
Chairman

__________________________________________  
Gary Skinner  
Secretary
Virginia Railway Express
Operations Board

Resolution
9G-12-2014 Option B

Referral of the Revised FY 2015 and Recommended FY 2016 VRE Operating and Capital Budgets
to the Commissions and Localities

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WHEREAS, the VRE Chief Executive Officer has provided the VRE Operations Board with the FY 2016 Operating and Capital Budget within the key issues developed in concert with the jurisdictional chief administrative officers; and,

WHEREAS, the FY 2016 budget proposes a 3% fare increase and a 2% jurisdictional subsidy increase; and,

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