To: Chairman Milde and the VRE Operations Board
From: Doug Allen
Date: July 18, 2014
Re: FY 2016 Budget Key Issues

Recommendation:

The VRE Operations Board is being asked to provide feedback and direction for the development of the FY 2016 Budget and Capital Improvement Program (CIP).

Background:

VRE has adopted a financial planning process that provides for early consideration of key budget issues and assumptions. During the budget cycle, VRE staff meets monthly with the member jurisdictions’ Chief Administrative Officers (CAO) Budget Taskforce to develop the annual proposed budget and an independent CAO recommendation is provided to the Operations Board and Commissions in conjunction with the final budget submission at the December Operations Board meeting. In addition, the Capital Committee meets periodically to provide an in-depth review of major capital needs and issues for referral to the full Operations Board as required.

During the course of the last budget cycle, the Operations Board approved a set of financial and debt management principles, endorsed a System Plan for future development of the commuter rail system, and implemented a life-cycle maintenance strategy to ensure the efficient maintenance of the system’s rail equipment. In addition, changes to all of VRE’s major grant funding sources led to a substantial increase to the capital plan that was presented with the FY 2015 budget, allowing for the replacement of the remaining legacy fleet, the development of a funding plan for the purchase of 14 expansion rail cars, the construction of a maintenance facility to support life-cycle maintenance of VRE’s rail equipment, the construction of a second platform at the Lorton station, and a set-aside of funds for project development. The FY 2016 key issues presented below are the result of
the actions taken during the FY 2015 budget cycle and represent a further refinement for FY 2016 and future years.

**Proposed FY 2016 Key Issues:**

The key issues described below apply to the development of the FY 2016 Budget and CIP and to the six-year financial plan, which provides a consolidated financial projection over a multi-year time frame.

**Key Issue #1: Level of service:** Some trains are at or over 100% capacity and the addition of the Spotsylvania station and parking facility will result in increased ridership.

An additional Fredericksburg train scheduled to begin service in FY 2015 was added in order to mitigate the overcrowding and the capacity issues at stations further up the line to some extent; the full year cost of this additional service will be included in the FY 2016 operating budget. A plan to purchase 14 expansion railcars was approved by the Operations Board in January 2014. The first five cars were funded in the FY 2015 Budget with the intention of including the remaining nine cars in FY 2016. The additional cars along with related infrastructure improvements to stations and storage yards will allow for the lengthening of existing peak trains and the conversion of a “deadhead” train on the Manassas line to revenue service after FY 2016.

**Key Issue #2: Maintenance of VRE Assets:** Federal formula funds devoted to maintaining transit assets in a “State of Good Repair” are expected to provide the ongoing capital cost of maintaining VRE assets over their life-cycle.

The federal priority under MAP-21 of maintaining transit systems in a “State of Good Repair” has been included in the current versions of the next transportation authorization. So long as the formula funding available to VRE continues at the projected level (see information on federal funding below) the funds to adequately maintain equipment and facilities will be available from this source. An asset management strategy for facilities will be completed during FY 2015, which will be used to refine the costs included in the FY 2016 Budget and CIP. In accordance with the already completed asset management strategy for VRE’s rolling stock, construction of the new maintenance facility will be finished during FY 2016 and the costs of the life-cycle maintenance program for equipment will continue to be reflected in the CIP.

**Key Issue #3: Contract renewal with Amtrak:** VRE’s current five-year contract with Amtrak expires at the end of FY 2015.

Discussions have begun on the new contract with Amtrak which will be reflected in the FY 2016 operating budget and CIP. The new contract will incorporate the requirements of the Passenger Rail Investment and Improvement Act (PRIIA) for the calculation of access fees. (This change will actually be implemented in October 2014 for the last year of the current contract). The cost of mid-day storage at Ivy City will be part of the negotiation of the new
contract. In addition, funding for the development of alternative storage sites for VRE equipment will be incorporated into the FY 2016 Budget and CIP and the six-year financial plan.

**Key Issue #4: Capital improvements to support the VRE System Plan:** *Capital improvements needed to meet the expected demand for VRE service and to increase railroad infrastructure capacity in the VRE service territory require the identification and commitment of funds beyond those currently available to VRE.*

During FY 2014 the Operations Board and Commissions endorsed the VRE System Plan, which provides for the logical, incremental expansion of VRE infrastructure and service. The improvements needed for Phase 1 of the Plan were linked to the CIP for the period FY 2015 through FY 2020. Although funding was identified for a number of these improvements, many other projects were left unfunded. In addition, the creation of a schedule for the construction of a third mainline track in the CSX territory may increase the need for additional funding sources within the six-year CIP currently under development. This issue will be addressed in more detail at a Capital Committee meeting in September. A financial planning effort related to the VRE System Plan will be included in this discussion.

NVTA regional funding is available on a discretionary basis for certain VRE capital projects, but only for those located within the NVTA jurisdictions, which has created an imbalance of funding sources within VRE.

**Key Issue #5: Capital reserve:** *VRE needs to develop a target level for the capital reserve.*

For the last several years, VRE has maintained a capital reserve in order to take advantage of discretionary state and federal grants that require a local match; to fund smaller capital projects and/or those for which grant funds are unavailable; and to benefit from the cost efficiencies of early advancement of certain projects. Prior to FY 2015, the capital reserve was funded solely through surplus funds at year-end and proceeds from the sale of older rolling stock. The FY 2015 budget and six-year forecast included an annual contribution from current revenue of $3 million in order to provide a larger and more stable source of funds for the current purposes and to provide funding to advance complex system investments beyond Phase 1 of the System Plan. The $3 million annual contribution level was pegged, in part, to the additional funds available from the retirement of the outstanding tax-exempt bonds, with the understanding that a target level for the capital reserve would be developed based on the further refinement of the System Plan.

**Key Issue #6: VRE staffing and office space:** *VRE needs the staff resources necessary to operate and administer the commuter rail system safely, efficiently and in compliance with all federal and state requirements.*

Since inception, the administration and oversight of the commuter rail system has been accomplished by a relatively small permanent staff, supplemented at times with assistance on a contract or temporary basis. As the system itself has grown and developed, along with
internal and external requirements, the staff level has not kept pace. As a result, the FY 2016 budget is expected to include the need for additional staff resources, along with the need for additional office space since the current offices in Alexandria are fully utilized. Early implementation of some of the proposals may be requested at budget adoption in December.

**Key Issue #7: Jurisdictional subsidy:** The VRE service must be supported within the confines of jurisdictional budget constraints.

Subsidy increases or decreases in FY 2016 and future years will be evaluated based on system requirements, changes to state and federal funding levels and the jurisdiction’s ability to contribute using fuel tax revenue or other sources of funding. The FY 2015 six-year financial forecast projected a subsidy increase for FY 2016. However, VRE will work with jurisdictional staff on formulating future subsidy levels and will make every effort to identify alternative sources of funding.

**Key Issue #8: Fare increases:** An appropriate balance is needed between the levels of service necessary to meet customer needs and competitive pricing for that service.

VRE has had two fare increases in the last five fiscal years (FY 2013 and FY 2014). These have been necessary to maintain the level of service without being excessive in cost to the rider. Fare increases will be evaluated as the budget process continues, with consideration given to market factors, system funding needs, commuter benefit levels, comparison to relevant indices, and a preference for biennial increases. The FY 2015 six-year financial forecast projected a fare increase for FY 2016. In the event a fare increase is warranted, staff will attempt to hold the increase to 5% or less.

**Other FY 2016 Issues and Assumptions:**

- **State Funding:** The state transportation bill made significant changes to the amount of funding potentially available to VRE for both operating and capital needs, and the TSDAC process set parameters for how those funds would be used. However, state capital funding is projected to reach a “fiscal cliff” after FY 2018 when additional bond funding is no longer available. VRE staff will monitor the continuing work of the TSDAC committee as they refine their original recommendations, along with estimates of future levels of available state funding.

- **Federal funding:** MAP-21 will expire in September 2014, and VRE’s federal funding for FY 2016 and future years will be based on a new transportation authorization, although there may simply be a continuing resolution for federal FY 2015 (VRE FY 2016). The six year financial forecast assumed a reduction in available federal funds of 25% in FY 2016 and future years, compared to the MAP-21 level ($21.1M annually compared to $28.3M), because of the substantial uncertainties involved. In addition, the Highway Trust Fund is facing a shortfall in August 2014 and the Mass Transit Account in October 2014, and may be insolvent by the end of the calendar year. This
could affect the pace at which funding is provided, meaning that all federal funds allocated to VRE will still be received but it will take longer than usual to actually have them deposited in our coffers. At this point VRE does not see this causing cash flow issues. VRE staff will continue to revise our funding and cash flow projections as additional information becomes available.

In addition, VRE staff will monitor the availability of funding through discretionary federal programs such as TIGER and the CIP will indicate what projects could be submitted for this funding.

- **NVTA funding:** The CIP will reflect funding for projects already selected by NVTA and will indicate what additional projects could be submitted for NVTA funding. NVTA funding is available to VRE only on a discretionary basis.

- **Financial and debt management principles:** In October 2013 the Operations Board approved a set of financial and debt management principles. The FY 2016 budget document will explicitly reflect the adherence to these principles.

- **Positive Train Control (PTC):** The capital cost of PTC was funded in prior years. However, the ongoing operating costs of this equipment, primarily software licensing fees, will be incorporated into the FY 2016 budget.

- **Access fee grants:** Beginning in FY 2015, grant reimbursement for railroad access fees will be provided through multi-year agreements with the state that rely on an assignment of flexible STP funds combined with a state capital match. The state agreements will run concurrently with the railroad access agreements. Because of the magnitude of these costs ($15.6M in FY 2015), the multi-year funding agreements will provide considerably more stability for VRE’s budget. We are currently working with the state to ensure that the new process doesn’t inadvertently exacerbate some of the delays already experienced in receiving grant reimbursement.

**Next Steps:**

- Continue discussion of FY 2016 budget scenarios with the CAO Budget Task Force.
- Present preliminary budget forecasts/options to the Operations Board in September 2014.
- Continue Capital Committee involvement in pertinent matters, based on the proposed FY 2016 budget and six-year financial forecast.

**Fiscal Impact:**

The fiscal impact of the FY 2016 budget and capital program will be addressed at the September Operations Board meeting.
Virginia Railway Express
Operations Board

Resolution
9A-07-2014

FY 2016 Budget Key Issues

WHEREAS, financial planning for the Virginia Railway Express is based on a set of budget issues and assumptions discussed by the VRE Operations Board prior to the development of the annual operating and capital budget; and,

WHEREAS, the VRE Operations Board has directed that the development of each annual budget involve consultation and cooperation with the Chief Administrative Officers (CAO) Budget Taskforce established by VRE’s participating and contributing jurisdictions; and,

WHEREAS, budget issues and assumptions for the development of the FY 2016 operating and capital budget were reviewed by the CAO Budget Taskforce prior to their presentation to the Operations Board.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board directs VRE staff to develop the FY 2016 Budget and CIP in accordance with the Board’s direction.

Approved this 18th day of July 2014

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Paul Milde
Chairman

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Gary Skinner
Secretary