To: Chairman Cooke and the VRE Operations Board
From: Doug Allen
Date: July 17, 2015
Re: FY 2017 Budget Key Issues

Recommendation:

The VRE Operations Board is being asked to provide feedback and direction for the development of the FY 2017 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.

In accordance with the VRE Master Agreement, a consolidated financial projection over a six-year time frame is provided each year as a component of the annual budget. Currently, a Financial Plan is being developed to forecast the cost of current operations and various growth scenarios through FY 2040, the period covered by the System Plan developed during FY 2014. This longer term financial analysis will be incorporated into the FY 2017 budget process, as appropriate.
Proposed FY 2017 Key Issues:

**Key Issue #1: Level of Service:** Some trains are currently at or over 100% capacity. Planned service improvements include the new Fredericksburg line train (summer 2015) and the lengthening of peak trains as additional railcars are received.

The addition of the Fredericksburg line train projected to begin service in late summer 2015 is expected to somewhat mitigate the overcrowding and the capacity issues at stations further up the line. The service will run with the legacy gallery railcars until additional new railcars are available mid-way through FY 2016. Five railcars were ordered in FY 2015 and an additional nine are budgeted in FY 2016. These additional 14 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 in FY 2017.

**Key Issue #2: Maintenance and Replacement of VRE Assets:** Federal formula funds devoted to maintaining transit assets in a “State of Good Repair” are expected to provide for the ongoing capital cost of maintaining VRE assets over their life-cycle. However, replacement of the fleet at the end of the expected useful life of the equipment will require additional funding mechanisms.

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 and the funds to adequately maintain equipment and facilities will be available from this source. The recently completed asset management strategy for facilities will be used to refine the costs included in the FY 2017 budget and CIP for this group of assets.

Because VRE’s current fleet of railcars and locomotives were purchased during a compressed time period, the replacement of the fleet at the end of its useful life is projected to be needed during a five-year period beginning in FY 2030, at an estimated cost of approximately $450M. Although this need falls well beyond the projection period in the annual budget and CIP, this issue was highlighted in the longer-term Financial Plan forecast.

**Key Issue #3: Midday Storage:** The construction of alternate midday storage facilities will require a significant funding commitment over the next several years.

VRE is currently hampered by limited midday train storage space near Union Station and must deadhead one trainset daily back to the Broad Run yard. In addition, the current contract with Amtrak includes provisions for Amtrak to reclaim VRE’s current storage space at the Ivy City yard for their own use during the next several years. As a result, VRE must proceed expeditiously to both increase midday train storage beyond what is currently available and to fully replace the storage yard now used at Ivy City.
A substantial portion of available federal formula funds were devoted to this project during the six-year time frame covered by the FY 2016 – FY 2021 CIP. However, recent cost projections indicate that additional funding will need to be identified.

**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 Financial Plan will provide estimates of the additional funding needed in coming years to implement the services described in the System Plan. An important component of future capital needs is the commitment to ensure the development of the railroad infrastructure in the CSXT territory.

NVTA regional funding continues to be available on a discretionary basis for certain VRE capital projects, but only for those located within the NVTA jurisdictions, which has highlighted the need for funding sources in the non-NVTA area served by VRE.

**Key Issue #5: VRE staff level:** 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 a continuing increase in internal and external requirements, the staff level has not kept pace. The FY 2016 budget included three new permanent positions and the replacement of three contract positions with VRE staff positions. While the new positions have helped address needs, the FY 2017 proposed budget is expected to include the need for further additional staff resources.

**Key Issue #6: Jurisdictional subsidy and the need for additional funding sources:** The VRE service currently must be supported within the confines of jurisdictional budget constraints. The Financial Plan forecast is the first step in quantifying the need for additional ongoing funding sources to support the commuter rail service.

The subsidy level in FY 2017 will be evaluated based on a variety of factors, including contractual increases, expected 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 2016 six-year financial forecast projected a subsidy increase of 5% for FY 2017. VRE will work with jurisdictional staff on formulating future subsidy levels and will fully utilize all existing other funding sources.
The total jurisdictional subsidy of $16.4 million has been flat for the last four years and the level has not changed appreciably over the last seven years. The limitations of the reliance on jurisdictional funding and the need for alternate ongoing funding will be addressed through the Financial Plan forecast, as noted above.

**Other FY 2017 Issues and Assumptions:**

- **State Funding:** In the latest information presented to the CTB on June 16, 2015, the total level of operating assistance is projected to increase slightly through FY 2021, although the expansion of WMATA’s Silver Line will impact the amount received by VRE and other transit providers in future years. Despite some additional revenue as a result of legislation passed in the 2105 session, state capital funding is projected to reach a fiscal cliff after FY 2019 when bond funding supporting the state matching percentage is no longer available. VRE staff will continue to monitor future levels of available state funding.

- **Federal funding:** MAP-21 expired in September 2014, and VRE’s federal funding for future years will be based on a new transportation authorization. There have been several continuing resolutions in which funding was held at the MAP-21 level. VRE staff will continue to revise projections as additional information becomes available. The limitations on the use of our major source of federal source, the 5337 or State of Good Repair program, will further complicate our capital funding picture.

- **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 and only for jurisdictions within the NVTA area.

**Next Steps:**

- Discussion by the Capital Committee later today of the process for development and review of the FY 2017-FY 2022 CIP, format changes to the CIP document, and incorporation of information generated during the development of the Financial Plan.
- Continuation of discussion of FY 2017 budget scenarios with the CAO Budget Task Force.
- Provision of preliminary budget and CIP to the Operations Board in September 2015 and to the Commissions in October 2015.

**Fiscal Impact:**

The fiscal impact of the FY 2017 budget and capital program will be addressed at the September Operations Board meeting.
Virginia Railway Express
Operations Board

Resolution
8M-07-2015

FY 2017 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 2017 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 2017 Budget and CIP in accordance with the Board's direction.

Approved this 17th day of July 2015

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John C. Cook
Chairman

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Paul Smedberg
Secretary