To: Chairman Cook and the VRE Operations Board

From: Doug Allen

Date: October 16, 2015

Re: Financial Plan Update

VRE staff and our consultants, the PFM Group, have been working on the development of a long term strategic planning model since February 2015. At the September 18, 2015 Operations Board meeting, PFM and VRE staff provided a summary of the operating and capital costs associated with the implementation of System Plan 2040 and a range of other system alternatives, for the purpose of developing a consensus regarding the future service profile for the system and the desired next steps.

The key conclusions from the financial forecasting effort, which were presented at the meeting are summarized below:

- Regardless of the service profile:
  - Operating expenses will escalate and additional revenue will be needed for VRE to be financially balanced over the long term.
  - A significant level of capital investment is required that cannot be handled with currently identified capital funding sources.
  - NVTA funding has created an imbalance among the VRE jurisdictions in the ability to identify funding sources for VRE related capital needs.
- Raising fares to close the financial gap is not a viable solution on its own.
- Higher ridership associated with enhanced service levels could defray some of the future operating and capital costs.
• VRE needs additional dedicated revenue beyond the sources which exist today, even to maintain the status quo.

The Board asked PFM to return in January with full financial plans for the Natural Growth and System Plan 2040 service profiles, which will include a range of possible sources of additional dedicated revenue for the commuter rail system.

At the meeting, Board members asked a number of specific questions about the details of the financial forecast, including the relationships between riders, number of trains and net cost. Some of these questions will be addressed prior to the presentation in January, both with individual members of the Board and in summary form through monthly updates.

The financial forecast was based on a 3% increase in the jurisdictional subsidy every other year, with fare increases in the alternate years. In response to a question from Supervisor Caddigan, attached is a calculation of the additional cost of this increase to each of the VRE jurisdictions. **As noted on the attachment, the calculation assumes no change to the percentage of ridership from the individual jurisdictions from year to year, because estimates of such changes are not currently available.** However, we believe the information as presented provides some guidance on the impact of the increases contemplated.