To: Chairman Cook and the VRE Operations Board  
From: Doug Allen  
Date: December 18, 2015  
Re: Referral of the Revised FY 2016 and Recommended FY 2017 VRE Operating and Capital Budgets to the Commissions and Localities

Recommendation:

The VRE Operations Board is being asked to adopt the revised FY 2016 VRE Operating and Capital Budget and the recommended FY 2017 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 2017 VRE Operating and Capital Budget was initially prepared for review at the September VRE Operations Board. Since that time, it has been discussed at subsequent monthly meetings of the Operations Board and the CAO Taskforce, and the Capital Committee reviewed the capital program in November. The CAO Taskforce met on December 10th to present their final recommendations and discuss VRE responses to those recommendations.

Discussion:

The Recommended FY 2017 Operating and Capital Budget totals $130.5 million.
The major assumptions in FY 2017 and significant changes compared to the prior fiscal year are as follows:

- Jurisdictional subsidy of $17,250,240; a 5% increase from the FY 2016 level.
- No increase to fare rates and a projected average daily ridership of 19,100 passengers, which results in a total of $38.95 million in fare revenue.
- State operating funds of $9.0 million, approximately the same as the amount received in FY 2016, and 900K more than in the approved FY2016 Budget.
- Fuel estimated at $2.90/gallon for a total cost of $4.8 million.
- Grant funding from all sources for track access costs at 84% or $14.1 million; equal to the percentage provided in FY 2016. Access fees increased at estimated or actual contractual amounts.
- Addition of four FTE employees to Project Implementation, Facilities Maintenance, and Finance and Administration, with partial grant funding for three of the positions for a net cost of $375k.
- Required contractual increase for train operations and maintenance of equipment of $140k or 0.17%, the 12-month CPI increase for October 2015.
- Prior year funding of $377k for one time expenditures in FY 2017 for modernization of IT equipment, software and other costs related to the database development project ($295k) and security costs during construction of the Potomac Shores station ($82k). The Information Technology budget increased by $610k in total, including these one-time costs and anticipated ongoing costs for licensing and system maintenance.
- Federal 5307 (Urbanized Area) and 5337 (State of Good Repair) funding of $27.05 million, equal to the amount received in FY 2016, and $900k less than in the approved FY 2016 budget.
- Tiered capital matching funds from the State of the non-federal share for new projects with 34% (tier II) funding requested from the state for the major midday storage and yard projects.
- Contribution to the Capital Reserve of $3M with $1M allocated from the Reserve balance for FY 2017 capital projects.
- Operating contingency at 1% of the operating budget.

The FY 2017 operating budget expenses of $82.5M exceed the prior year amount by $367k (less than one-half of one percent), with a combination of revenue increases and cost decreases essentially netting out against contractual and other recommended cost increases. The essentially flat operating budget is the result, in part, of historic low fuel costs projections and a minimal change to the CPI.

The primary driver of increased local cost outflow in FY 2017 compared to FY 2016 is the local match to federal formula funds for the capital program, accounting for an increase in costs of $810k. This reflects that VRE funded a large portion of the local match for Capital projects in FY 2016 with prior year revenue, due in part to a delay in the federal authorization legislation until just prior to budget adoption; the final authorization indicated additional funding and an accompanying need for local match. In FY 2017 we are
returning to the preferred method of funding the ongoing need for local match with current revenue.

The budget also includes a six-year financial forecast for the period FY 2017 through FY 2022 which includes a 3% fare increase in FY 2018, FY 2020 & FY2022.

The FY 2017 budget assumes a 5% subsidy increase, with future 3% increases in FY 2019 and FY 2021. Every October a survey of VRE riders is done to calculate the subsidy allocation by jurisdiction. The projected FY 2017 jurisdictional subsidy, which reflects the most recent ridership survey results, is as follows:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>FY 2016 Subsidy</th>
<th>FY 2017 Subsidy</th>
<th>Net Inc/(Dec)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince William County</td>
<td>$5,309,674</td>
<td>$5,968,406</td>
<td>$658,732</td>
<td>12.4%</td>
</tr>
<tr>
<td>Fairfax County</td>
<td>4,847,285</td>
<td>5,160,910</td>
<td>313,625</td>
<td>6.5%</td>
</tr>
<tr>
<td>Stafford County</td>
<td>2,855,607</td>
<td>2,647,222</td>
<td>(208,385)</td>
<td>-7.3%</td>
</tr>
<tr>
<td>Spotsylvania County</td>
<td>1,303,888</td>
<td>1,382,749</td>
<td>78,861</td>
<td>6.0%</td>
</tr>
<tr>
<td>Manassas</td>
<td>766,491</td>
<td>749,371</td>
<td>(17,120)</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Manassas Park</td>
<td>576,699</td>
<td>511,777</td>
<td>(64,922)</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Fredericksburg</td>
<td>439,366</td>
<td>483,524</td>
<td>44,158</td>
<td>10.1%</td>
</tr>
<tr>
<td>Alexandria</td>
<td>133,894</td>
<td>140,589</td>
<td>6,695</td>
<td>5.0%</td>
</tr>
<tr>
<td>Arlington</td>
<td>195,897</td>
<td>205,692</td>
<td>9,795</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Total Subsidy</strong></td>
<td><strong>$16,428,801</strong></td>
<td><strong>$17,250,240</strong></td>
<td><strong>$821,439</strong></td>
<td><strong>5.0%</strong></td>
</tr>
</tbody>
</table>

**Capital Budget and CIP**

The multi-year CIP includes both funded and unfunded projects. The funded 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 unfunded or partially funded projects are those that are pending a discretionary allocation by a funding authority or for which a funding source has not yet been identified.

In the last year, VRE, with the assistance of PFM, has developed a financial forecast that compares the capital and operating needs associated with various service profiles (including implementation of System Plan 2040) to available funding sources and quantified the need for additional funding. The next step in the development of the Financial Plan is the identification and evaluation of various alternative for meeting future system needs, including debt financing as appropriate.

The FY 2017 to FY 2022 CIP illustrates the funding challenges for VRE in the coming years, since currently identified funding falls short of the system’s capital needs. Projects included in the CIP are prioritized with an emphasis on passenger safety, regulatory requirements, and maintaining current equipment and facilities in a state of good repair. However, the
shortfall makes it difficult for VRE to adequately reinvest to maintain the system’s reliability and safety, while also making enhancements, adding capacity to serve new ridership demands and adhering to commitments to participate in the expansion of the railroad infrastructure.

A key challenge is the misalignment between the timing of need and availability of funding for several crucial projects, most notably the replacement of VRE’s midday train storage facility. The current CIP relies on multi-year state capital funding of 34% to allow us to leverage our available federal formula funds. However, this funding is insufficient to advance the project as desired in FY 2018 and FY 2019. The project is a candidate for federal Core Capacity funding or for debt financing; these and other options will be considered once costs for the project have been confirmed. The limitations on the use of our major source of federal source, the 5337 or State of Good Repair program, further complicates our capital funding picture.

To fully fund the projects in the FY 2017-FY 2022 CIP (including all costs to complete) would require approximately $2.1 billion. Of this total, $499 million has been allocated or is anticipated from ongoing formula funding sources. The remaining $1.6 billion, includes a number of projects which are eligible for funding from discretionary funding sources such as HB-2 or NVTA. The Long Bridge ($700 million) along with several related projects is a candidate for funding through the federal Core Capacity program and from the contributions of other stakeholders. The Gainesville Haymarket Extension ($286 million) is a candidate for funding through HB-2 and the federal New Starts program.

The total programmed capital projects for FY 2017 of $48 million are outlined below. The funding source is FTA formula funds, including required local match, unless otherwise indicated.

**Asset Management projects:**
- Facilities Asset Management Program - $3.9M
- Lifecycle Overhaul Facility (LOU) and yard improvements - $12.6M
- Equipment Asset Management Program - $4.9M
- Fare Collection EMV Compliance/Upgrade - $1.2M
- Security Cameras and other - $.9M

**Replacement projects:**
- Midday train storage - $8.2M (includes $500k from Capital Reserve – part of project includes potential for future expansion).

**Expansion projects:**
- Fourth Track VA to LE - $0.25M (Capital Reserve or REF funding)
- L'Enfant Station Improvements - $0.25M (Capital Reserve or REF funding)
- Lorton platform improvements - $0.5M (CMAQ)
- Rippon platform improvements - $2.0M (CMAQ)
- Brooke/Leeland second platforms - $5.8M (REF)
- Quantico Intermodal - $4.5M (IPROC)

Other:
- Capital reserve contribution - $3.0 (local funds only - may be used for capital projects of any kind)

The FY 2017 capital budget decreased from the prior year by $6.8M (-12%). This is due primarily to the use of 68% state funding in FY 2016 for the purchase of expansion rail cars and year to year differences in the availability of discretionary funding sources such as CMAQ and REF.
FY 2016 Amended Budget

The FY 2016 budget has been revised to reflect current projections for revenue and expenses. The major changes are as follows:

- Increased state operating funds in the amount of $1.1M.
- Revised/reduced fare revenue by $1.07M due to the delayed start of the new train and updated ridership projection.
- Revised/reduced access fees for Amtrak by $351K to reflect actual costs of new agreement, with an accompanying decrease in projected grant revenue.
- Operational Contingency was increased by a net $930K for various additions and revisions of current year operating costs. The major changes were a decrease of $1.59M to the cost of diesel fuel, changes related to the delayed start of the new train, and an increase of $455K for the database development project, for which funds had been budgeted in prior years.
- Funds are available in the contingency for FY 2017 additional positions to be added prior to year-end.

Capital budget changes:

- Capital project spending was reduced by $1.13M to reflect a lower than anticipated award of federal formula funding in FY 2016. In addition, grant requests for FY 2014, FY 2015 and FY 2016 were rearranged to accommodate the correct split between 5307 (Urbanized Area) and 5337 (State of Good Repair) FTA funding.
- An additional $10.7M of CMAQ, IPROC and REF funding for capital projects was recognized.
- Capital Reserve funds of $500k were added to the funding for Equipment Storage projects to ensure availability of funding for improvements potentially not available for grant reimbursement.
Virginia Railway Express
Operations Board

Resolution
9B-12-2015

Referral of the Revised FY 2016 and Recommended FY 2017 VRE Operating and Capital Budgets to the Commissions and Localities

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 2017 Operating and Capital Budget within the guidelines developed in concert with the jurisdictional chief administrative officers; and,

WHEREAS, the FY 2017 budget proposes a 5% jurisdictional subsidy increase and no fare increase; and,

WHEREAS, VRE staff recommends a budget built on an average daily ridership of 19,100 and 34 trains;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby recommend that the Commissions adopt the FY 2017 VRE Operating and Capital Budget in the following amounts and forward this budget to the local jurisdictions for inclusion in their budgets and appropriations in accordance with the Master Agreement; and,

Operating Budget $ 82,483,433
Capital Budget 48,028,443
Total Operating and Capital $130,511,876

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend that the Commissions adopt the amended FY 2016 Operating and Capital Budget in the following amounts; and,

Operating Budget $ 81,567,080
Capital Budget 64,897,861
Total Operating and Capital $146,464,941
Resolution 9B-12-2015 continued

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend 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 2016 and FY 2017; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend that the Commissions authorize the Executive Director of NVTC to submit to the Commonwealth the approved budget as part of the FY 2017 state aid grant applications; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend 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 18th day of December 2015.

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John C. Cook
Chairman

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Paul Smedberg
Secretary