Agenda Item 9-A
Action Item

To: Chairman Skinner and the VRE Operations Board

From: Doug Allen

Date: February 19, 2016

Re: Concurrence with Financial Plan Direction

Recommendation:

The VRE Operations Board is asked to adopt the attached VRE Financial Plan: Key Findings and Strategic Direction which indicates their concurrence with the results of the Financial Plan analysis, which will allow the Chief Executive Officer to proceed with identifying additional funding sources to implement this direction.

Background:

In February 2015, VRE staff and our consultants, PFM, began work on the development of a long-term Financial Plan to correspond to the adopted System Plan 2040. The purpose of this effort was to create a financial forecast of the varying operational and service profiles that VRE might pursue, ranging from maintaining the existing system to the implementation of system improvements and expansion initiatives. A detailed long term strategic planning model was developed and the results presented to the Operations Board in July and September 2015.
The key conclusions from the financial forecasting effort, as presented at the September 2015 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.

In January 2016 VRE staff and PFM provided a recap of the analysis performed with a focus on the two scenarios that will be developed further and discussed next steps in the preparation of full financial plans for the Natural Growth and System Plan 2040 service profiles, which are described below:

- **Natural Growth** – additional service provided through lengthening of existing trains in response to ridership growth over time due to regional increases in population and employment.
- **System Plan 2040** – attraction of additional riders through enhancement of the VRE service as described in System Plan 2040: additional peak trains; full entry into reverse-peak and off-peak markets; and construction of the Gainesville-Haymarket extension.

The questions raised by the Board members at the meeting in September 2015 about the details of the financial forecast, including the relationships between riders, revenue and net cost and how the compared across scenarios were reviewed and additional clarifying questions were added to the list. Responses will be provided at the February 2016 Operations Board meeting.

After these questions are answered, staff believes the analysis has been pursued as far as it currently can be and that the model provides an excellent tool to further develop and refine the projections in the future. The model will be revisited as significant information becomes available and decisions on specific projects are required, but no less often than every three years.

Staff recommends that VRE continue with the Natural Growth service profile, which approximates the approach taken in the past and which the Financial Plan model indicates
will require additional sources of revenue. In addition, staff recommends that VRE aspire towards those elements of the System Plan 2040 service profile that further review indicates we should pursue and for which funding has been identified.

**Fiscal Impact:**

The adoption of the direction provided in the Financial Plan does not have a fiscal impact. The fiscal impact of individual service adjustments, construction projects or equipment purchases outlined in the Plan will be provided when the related agenda item is brought to the Operations Board for approval.
Virginia Railway Express
Operations Board

Resolution
9A-02-2016

Concurrence with Financial Plan Direction

WHEREAS, in February 2015, VRE staff and our consultants, PFM, began work on the development of a long-term Financial Plan to correspond to the adopted System Plan 2040; and,

WHEREAS, the purpose of this effort was to create a financial forecast of the varying operational and service profiles that VRE might pursue, ranging from maintaining the existing system to the implementation of system improvements and expansion initiatives; and,

WHEREAS, a detailed long term strategic planning model was developed and the results and key conclusions presented to the Operations Board in July and September 2015; and,

WHEREAS, the Operations Board chose to further review the Natural Growth and System Plan 2040 service profiles; and,

WHEREAS, staff recommends that VRE continue with the Natural Growth service profile, which approximates the approach taken in the past and which the Financial Plan model indicates will require additional sources of revenue and that VRE aspire towards those elements of the System Plan 2040 service profile that further review indicates should be pursued and for which funding has been identified;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board hereby recommends that the Commissions adopt the attached VRE Financial Plan: Key Findings and Strategic Direction which indicates their concurrence with the results of the Financial Plan analysis, and which will allow the Chief Executive Officer to proceed with identifying additional funding sources to implement this direction.

Approved this 19th day of February 2016

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Gary Skinner
Chairman

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Maureen Caddigan
Secretary
VRE Financial Plan: Key Findings and Strategic Direction

Key Findings

1. 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, even assuming a 3% increase to fares and local subsidies in alternating years.
   - 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.

2. Raising fares to close the financial gap is not a viable solution on its own.

3. Higher ridership associated with enhanced service levels could defray some of the future operating and capital costs.

4. VRE needs additional dedicated revenue beyond the sources which exist today, even to maintain the status quo.

Strategic Direction

1. VRE will continue to follow the Natural Growth profile of providing additional service through lengthening of existing trains in response to ridership growth over time due to regional increases in population and employment.

2. VRE will continue to pursue funding to implement the service concepts included in the System Plan 2040 profile such as additional peak trains; the Gainesville-Haymarket extension and reverse-peak and off-peak service.