Strategic Financial Forecasting

Presented to

VRE Operations Board

February 19, 2016

presented by

Donna Boxer, CFO
Christine Hoeffner, Project Development Manager
Melvin Waldrop, Sr. Managing Consultant, PFM
INTRODUCTION

• System Plan 2040 created a vision for VRE’s future operations
• Forecast operating & capital revenues, costs and needs for alternatives
  • Natural Growth – “Grows with base market”
  • System Plan 2040 – “Full system expansion”
• Today’s purpose:
  • Respond to questions
  • Adopt Financial Plan Key Findings and Strategic Direction
  • Next Steps: Pursue funding sources to implement service concepts in VRE’s adopted System Plan 2040.
KEY FINDINGS

• VRE needs additional dedicated revenue even to maintain current service

• Regardless of Service Profile:
  - Additional operating revenue is required to achieve financial balance
  - Capital Investment of $2.6 billion is needed
  - Imbalance exists in NVTA and non-NVTA jurisdiction’s capacity for capital funding

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

• Higher ridership associated with enhanced service levels could help pay for some of the future operating and capital costs.
SUMMARY OF FINDINGS

Estimated Additional Annual Need and Daily Ridership

- Steady State:
  - Average Annual Capital Requirement: $21.2M
  - Average Annual Operating Need: $20.5M
  - Ridership: 19,200

- Natural Growth:
  - Average Annual Capital Requirement: $34.8M
  - Average Annual Operating Need: $9.7M
  - Ridership: 31,137

- System Plan:
  - Average Annual Capital Requirement: $14.3M
  - Average Annual Operating Need: $52.1M
  - Ridership: 52,240

Note: The values are in millions of dollars.
SYSTEM ALTERNATIVES

• Explored two system alternatives for future operations and capital investment

  • Natural Growth
    • Longer trains and platforms, more parking
    • System capacity meets expected regional growth

  • System Plan 2040 – “Full system expansion”
    • Gainesville-Haymarket extension
    • Additional peak trains
    • Reverse-peak and off-peak trains
STRATEGIC DIRECTION

• VRE’s strategy for future growth includes the following:

  - 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.

  - 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.
NATURAL GROWTH SCENARIO

• Meets expected growth within current base market
  • Longer trains to expand system capacity
  • No new trains will be added

• Natural Growth Profile Characteristics:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Riders</th>
<th>Fares</th>
<th>Train Trips</th>
<th>Cars</th>
<th>Subsidy/Fare Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>19,260/day</td>
<td>$7.90 (’16)</td>
<td>32</td>
<td>93</td>
<td>3% every other year</td>
</tr>
<tr>
<td>2040</td>
<td>31,138/day</td>
<td>$11.26 (’16)</td>
<td>32</td>
<td>127</td>
<td>3% every other year</td>
</tr>
</tbody>
</table>

• Additional average annual operating need is $9.7 million

• Capital Requirements:
  • State of Good repair is a funding priority
  • Additional CAPEX includes Long Bridge; platforms, parking and yards; and acquisition of rolling stock
  • Unfunded Capital investment totals $871 million
  • Average annual CAPEX need is $34 million; $44 million including operating need.
SYSTEM PLAN 2040 SCENARIO

• Implementation of VRE System Plan 2040
  • Additional trains are added and frequency is increased
  • Reverse-peak and off-peak markets
  • Gainesville-Haymarket Extension

• System Plan Profile Characteristics:
  • Peak capacity (seats + parking) increase in response to demand
  • Additional average annual operating need is $14.3 million

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Riders</th>
<th>Fares</th>
<th>Train Trips</th>
<th>Cars</th>
<th>Subsidy/Fare Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>19,260/day</td>
<td>$7.90 ('16)</td>
<td>32</td>
<td>93</td>
<td>3% every other year</td>
</tr>
<tr>
<td>2040</td>
<td>52,240/day</td>
<td>$11.26 ('16)</td>
<td>92</td>
<td>190</td>
<td>3% every other year</td>
</tr>
</tbody>
</table>

• Capital Requirements (in addition to Natural Growth):
  • CAPEX includes Gainesville-Haymarket Extension and Fourth Track; and acquisition of new rolling stock
  • Unfunded Capital investment totals $1.303 billion
  • Average annual CAPEX need is $52 million; $66 million including operating need
### OPERATIONAL METRICS

Select operational metrics in FY40 were compared for each alternative.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Natural Growth (FY40)</th>
<th>System Plan 2040 (FY40)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Riders (K/day)</td>
<td>31.1</td>
<td>52.2</td>
</tr>
<tr>
<td>Number of Daily Trains</td>
<td>32</td>
<td>92</td>
</tr>
<tr>
<td>Number of Cars in Service</td>
<td>127</td>
<td>190</td>
</tr>
<tr>
<td>Total Operating Cost ($M)</td>
<td>152.4</td>
<td>256.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metric</th>
<th>Natural Growth (FY40)</th>
<th>System Plan 2040 (FY40)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cost per Rider ($)</td>
<td>$19.14</td>
<td>$19.54</td>
</tr>
<tr>
<td>Fare box Recovery Ratio</td>
<td>0.59</td>
<td>0.58</td>
</tr>
<tr>
<td>Cost per Train Trip (annual) ($M)</td>
<td>$4.76</td>
<td>$2.80</td>
</tr>
<tr>
<td>Cost per Car (annual) ($M)</td>
<td>$1.2</td>
<td>$1.35</td>
</tr>
</tbody>
</table>
**NATURAL GROWTH CAPITAL EXPENDITURES**

- Capital Expenditures total $3.2 billion from FY16 to FY40
- State of Good Repair is a funding priority

<table>
<thead>
<tr>
<th>Natural Growth CAPEX (FY16 to FY40)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.2B</td>
</tr>
</tbody>
</table>

$0.806

$1.490

$0.871

<table>
<thead>
<tr>
<th>Natural Growth: Unfunded Projects by Type ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Track and Signal</td>
</tr>
<tr>
<td>$122</td>
</tr>
<tr>
<td>Rolling Stock</td>
</tr>
<tr>
<td>$430</td>
</tr>
<tr>
<td>Yard Improvements</td>
</tr>
<tr>
<td>$63</td>
</tr>
<tr>
<td>Stations and Parking</td>
</tr>
<tr>
<td>$257</td>
</tr>
<tr>
<td>Total (millions)</td>
</tr>
<tr>
<td>$871</td>
</tr>
</tbody>
</table>
SYSTEM PLAN CAPITAL EXPENDITURES

- Capital Expenditures total $4.03 billion from FY16 to FY40
- State of Good Repair is a funding priority

System Plan CAPEX (FY16 to FY40)

- $4.03B
- $1.303
- $1.947
- $0.828

System Plan: Unfunded Projects by Type ($M)

- Track and Signal: $216
- Rolling Stock: $647
- Yard Improvements: $40
- Stations and Parking: $318
- Gainesville Haymarket: $82
- Total (millions): $1,303
NATURAL GROWTH UNFUNDED CAPITAL EXPENDITURES

Natural Growth: Unfunded Capital Requirements by Fiscal Year

Millions

- Long Bridge, Yards and Stations & Parking
- Rolling Stock Replacement
- Stations and Parking, Yard, and Track and Signal
- Rolling Stock
System Plan: Unfunded Capital Requirements by Fiscal Year

- Long Bridge, Gainesville Haymarket Extension, Yards, and Stations & Parking
- Fleet Expansion
- Rolling Stock Replacement and Fleet Expansion

Millions

Stations and Parking, Yard, and Track and Signal
Rolling Stock

FY16 FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24 FY25 FY26 FY27 FY28 FY29 FY30 FY31 FY32 FY33 FY34 FY35 FY36 FY37 FY38 FY39 FY40
- On average 92% of operating expenses are covered by projected revenues.
- Operating Expenses expected to rise at an average rate of 2.6% (FY16 to FY40).
- Operating expenses are driven by:
  - Contracts
  - State funding access fee assumptions
  - Lengthening trains
  - Inflation
• On average 92% of operating expenses are covered by projected revenues
• Operating Expenses expected to rise at an average rate of 4.6% (FY16 to FY40)
• Operational expense drivers include
  • Contracts
  • State funding access fee assumptions
  • Expanded Service
  • Additional trains
  • Inflation
NATURAL GROWTH OPERATING NEED

• Average annual operating gap of $9.7 million (FY16 to FY40)

Assumes 3% increase in fares and subsidy every other year (EOY)

Annual Unfunded Operating Needs
Excludes New Debt Service

Average Annual Additional Operating Need

Assumes 3% increase in fares and subsidy every other year (EOY)
- Average annual operating gap of $14.3 million (FY16 to FY40)

Assumes 3% increase in fares and subsidy every other year (EOY)
SUMMARY OF FINDINGS

Estimated Additional Annual Need and Daily Ridership

- **Steady State Natural Growth System Plan**
  - Average Annual Capital Requirement: $20.5M
  - Average Annual Operating Need: $34.8M
  - Ridership: 19,200
  - Thousand Riders: 19,200

- **System Plan**
  - Average Annual Capital Requirement: $21.2M
  - Average Annual Operating Need: $9.7M
  - Ridership: 31,137
  - Thousand Riders: 31,137
  - Total: $66.4M

- **System Plan**
  - Average Annual Capital Requirement: $52.1M
  - Average Annual Operating Need: $14.3M
  - Ridership: 52,240
  - Thousand Riders: 52,240
NEXT STEPS

• Adopt the Resolution to establish direction

• Advocate for Budget Amendment for the CTB to review the Financial Plan and VRE’s Future Direction

• Begin process to pursue additional funding
QUESTIONS?