To: Chairman Skinner and the VRE Operations Board

From: Doug Allen

Date: July 15, 2016

Re: FY 2018 Key Budget Issues

Recommendation:

The VRE Operations Board is asked to provide feedback and direction for the development of the FY 2018 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 reviews major capital needs and issues for referral to the full Operations Board as required. The Committee met in June to review the Key Issues related to the capital program.

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. During the last year, a Financial Plan was developed to forecast the cost of current operations and various growth scenarios through FY 2040, the period covered by the VRE System Plan. The Financial Plan established that even to maintain the current level of service, VRE requires substantial operating and capital funding that cannot be met with currently identified funding sources. The chart below shows the average annual need through FY
2040 if VRE were to maintain service, enhance the system capacity to meet the future growth in the region, or implement the full System Plan.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Average Annual Operating Gap</th>
<th>Average Annual Capital Gap</th>
<th>Total Average Annual Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady State</td>
<td>21.2M</td>
<td>20.5M</td>
<td>41.7M</td>
</tr>
<tr>
<td>Natural Growth</td>
<td>9.7M</td>
<td>34.8M</td>
<td>44.5M</td>
</tr>
<tr>
<td>System Plan 2040</td>
<td>14.3M</td>
<td>52.1M</td>
<td>66.4M</td>
</tr>
</tbody>
</table>

The need for additional funds identified in the Financial Plan will be apparent in the FY 2018 operating and capital budgets and the FY 2018 – FY 2023 six-year forecast and CIP.

The Financial Plan forecast is being used to inform efforts to develop new sources of operating and capital funding. During FY 2017, the Commonwealth Transportation Board will review the forecast and report back to the General Assembly.

VRE’s *Financial and Debt Principles* addresses the prioritization of projects within the Capital Improvement Program and states:

*Projects included in VRE’s Capital Improvement Program will be prioritized with emphasis on regulatory requirements, the maintenance of equipment and facilities to support current service levels, and provisions for passenger safety.*

Included in these priorities is the required replacement of the Ivy City midday storage facility, a prerequisite for continuing to provide the current level of service, as further described below. In addition to these first level priorities, the CIP decision-making emphasizes the commitment to ensure the development of the railroad infrastructure in the CSXT territory; project readiness; funding availability; and the identification of funding to complete projects with some but not total funding.

**Proposed FY 2018 Key Issues**

**Key Issue #1: Level of service:** *Some trains are currently at or over 100% capacity. Planned service improvements include the lengthening of peak trains as additional rail cars are received.*

The addition of the Fredericksburg line train in FY 2016 was expected to minimize the overcrowding and the capacity issues at stations further up the line, and we continue to monitor this effect. Five rail cars were ordered in FY 2015 and an additional nine were ordered in FY 2016. These additional rail cars along with infrastructure improvements to stations and storage yards will allow for the lengthening of existing peak trains and provide an opportunity to convert two existing “deadhead” trains on the Manassas line to revenue service. No new trains are funded during the FY 2018 – FY 2023 time frame.
**Key Issue #2: Jurisdictional subsidy and fare increases:** The VRE service currently must be supported within the confines of jurisdictional budget constraints and a competitive and equitable fare structure. As noted above, the Financial Plan forecast was the first step in quantifying the need for additional ongoing dedicated funding sources to support both the operating and capital needs of the commuter rail service.

VRE has had three fare increases in the last six fiscal years (FY 2013, FY 2014 & FY 2016) in order to maintain the level of service without being excessive in cost to the rider. The FY 2017 six-year financial forecast projected a fare increase of 3% in FY 2018. This increase will be evaluated as the budget process continues, with consideration given to market factors, system funding needs, commuter benefit levels, comparison to relevant indices, and a preference for biennial increases.

The jurisdictional subsidy amount was increased by 5% in FY 2017 to approximately the total subsidy amount paid in FY 2009. The FY 2017 six-year financial forecast projected no change to the total subsidy amount in FY 2018, and a subsidy increase of 3% for FY 2019. With the decreased gasoline costs over the last two years, several of the jurisdictions who were exclusively relying on the fuel tax to pay the VRE subsidy are no longer able to do so.

**Key Issue #3: Maintenance and Replacement of VRE Assets:** As noted above, the maintenance of equipment and facilities to support current service levels is a priority in the VRE capital program. Federal formula funds devoted to maintaining transit assets in a “State of Good Repair” are expected to provide for these costs over the life-cycle of VRE’s assets. However, replacement of the fleet at the end of the expected useful life of the equipment will require additional funding mechanisms.

The federal priority of maintaining transit systems in a “State of Good Repair” has been continued in the Fixing America’s Surface Transportation (or FAST) Act, the current federal transportation authorization, and the funds to adequately maintain equipment and facilities will be available from this source. VRE’s ongoing transit asset management initiatives will be used to refine the costs that were included in the prior year budget and CIP for related projects.

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

The current agreement with Amtrak includes provisions for Amtrak to reclaim VRE’s midday storage space at the Ivy City yard for their own use during the next several years.
As a result, VRE must proceed expeditiously to replace the storage yard now used at Ivy City. Work done on the project thus far indicates that it will require a substantial portion of available federal formula funds over the term of the FY 2018 – FY 2023 CIP and may require the identification of other funding sources.

In addition to the replacement of the current storage tracks, VRE needs to increase midday train storage beyond what is currently available in order to provide for storage of all existing trains. This will be accomplished with the completion of storage tracks north and south of the L’Enfant station during FY 2017.

The new storage yard is expected to have the capacity to accommodate future growth as well as replace the current storage slots.

**Key Issue #5: Resources needed to implement the capital program:** Capital improvements needed to support the current level of VRE service, to increase railroad infrastructure capacity in the VRE service territory or to grow the system to meet future expected demand require the identification and commitment of funds beyond those currently available to VRE.

Each of the existing sources of capital funding that VRE relies on has inherent limitations. State capital funding is expected to drop off sharply in FY 2019 and FY 2020 when bond funding supporting the state matching percentage is no longer available. Federal funding has increased considerably over the last several years, but the limitations on the use of our major source of federal funds, the 5337 or State of Good Repair program, will further complicate our capital funding picture. 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 created an imbalance of funding sources within VRE. Local sources of funding are limited and must compete with other jurisdictional funding priorities.

**Key Issue #6: 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 and to advance the capital program in accordance with system needs and funding commitments.

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. For a number of years, as the system itself grew and developed, along with a continuing increase in internal and external requirements, the staff level did not keep pace. However, three new permanent positions and the replacement of three contract positions with VRE staff positions were funded in FY 2016 and an additional four new full time positions were funded in FY 2017. VRE management is currently reviewing existing staffing resources and potential needs for FY 2018, particularly in regard to resources needed to advance the capital program.
**Key Issue #7: Renewal of CSX operating access agreement:** The VRE five-year operating access agreement with CSX Transportation expired on June 30, 2016. In May 2016, the VRE Operations Board approved a one-year extension of this agreement through June 30, 2017.

Throughout this one-year extension period, VRE, CSXT and DRPT will meet to determine capacity enhancement projects, to prioritize these projects, to establish methodologies to identify how the capacity enhancements will result in additional service for VRE and to identify potential funding sources. VRE staff anticipates these elements will be integrated into the new Amended and Restated Agreement. The potential fiscal impact will be monitored throughout the FY 2018 budget process and reflected as appropriate.

**Key Issue #8: Statewide transit funding:** Projections of available statewide transit funding for operations and capital projects in FY 2018 and future years indicate the possibility of substantial decreases in certain years.

In the latest information presented to the Commonwealth Transportation Board (CTB) on June 13, 2016, the total level of operating assistance available statewide is projected to increase slightly through FY 2022. However, the expansion of WMATA’s Silver Line (Phase II scheduled to open 2020) will materially 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 2015 session, state capital funding is expected to drop off sharply in FY 2019 and FY 2020 when bond funding supporting the state matching percentage is no longer available, as noted above. One significant issue for VRE is the matching percentage for state grants for track access in any multi-year agreements entered into during this time frame. VRE staff will continue to monitor future levels of available state funding.

**Next Steps:**

- Continuation of discussion of FY 2018 budget and CIP with the CAO Budget Task Force.
- Provision of preliminary budget and CIP to the Operations Board in September 2016 and to the Commissions in October 2016.

**Fiscal Impact:**

The fiscal impact of the FY 2018 budget and capital program will be addressed at the September VRE Operations Board meeting.
Virginia Railway Express
Operations Board

Resolution
9A-07-2016

FY 2018 Key Budget 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 2018 operating and capital budget were reviewed by the CAO Budget Taskforce prior to their presentation to the Operations Board; and,

WHEREAS, the Key Issues related to the CIP were reviewed by the Capital Committee 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 2018 Budget and CIP in accordance with the Board’s direction.

Approved this 15th day of July 2016

_____________________
Gary Skinner
Chairman

_____________________
Maureen Caddigan
Secretary