To: Chairman Nohe and the VRE Operations Board

From: Doug Allen

Date: December 14, 2018

Re: Referral of the Amended FY 2019 and Recommended FY 2020 VRE Operating and Capital Budgets to the Commissions and Localities

Recommendation:

The VRE Operations Board is asked to adopt the revised FY 2019 VRE Operating and Capital Budget and the recommended FY 2020 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; to recommend the Commissions authorize the Executive Directors of NVTC and PRTC to take the necessary actions to apply for federal and state grant funding; and to approve the commitment of funds from the Commuter Rail Operating and Capital (C-ROC) Fund.

Summary:

Following the presentation of the preliminary FY 2020 budget in September and the budget update in November, staff is presenting the recommended FY 2020 operating and capital budget for adoption and referral. The recommended budget is balanced, with no funding gap, and with all projected uses of funding in FY 2020 supported by reasonably expected sources of funding. The FY 2020 budget includes a 3% average increase in passenger fares and no increase in total jurisdictional subsidy.
**Background:**

In accordance with the VRE Master Agreement, which outlines the process for annual budget approval, the preliminary FY 2020 VRE Operating and Capital Budget was prepared for review at the September 2018 VRE Operations Board meeting. Since that time, it has been discussed at subsequent meetings of the Operations Board, the Chief Administrative Officers' (CAO) Taskforce, and the Capital Committee, which reviewed the capital program in October 2018. The CAO Taskforce met on December 6 to present their final recommendations and discuss VRE responses to those recommendations.

**Discussion:**

The recommended FY 2020 Operating and Capital Budget totals $154.2 million. The budget includes a 3% average fare increase and projected average daily ridership of 18,700 passengers, which results in projected annual fare revenue of $43.8 million. The budget maintains total jurisdictional subsidy at $17,767,748 in FY 2020, the same as FY 2019.

The recommended FY 2020 operating budget of $89.2 million (which includes $6.2 million in debt-related expenses) represents an increase of $0.7 million or less than one percent over the FY 2019 operating budget. Overall, projected revenue increases largely netted out against increased operating expenses, primarily in the areas of contractual railroad access and train operations and maintenance costs. Debt service costs were also reduced as a result of the May 2018 refinancing of VRE’s outstanding debt for the purchase of 60 railcars. Other major assumptions in FY 2020, and significant changes compared to the prior fiscal year, are provided in the FY 2020 Recommended Budget document.

In accordance with the Master Agreement, VRE conducts an annual passenger survey to determine the jurisdiction of residence of its riders. The results of this survey are used to allocate the local jurisdiction subsidy. The recommended FY 2020 subsidy by individual jurisdiction, which incorporates data from the passenger survey conducted on October 3, 2018, is provided as an attachment, which also includes prior year subsidy and ridership data for comparison.

**Public Comment and Title VI Analysis on FY 2020 Fare Increase**

In accordance with VRE’s Public Participation Policy, VRE solicited feedback from riders and the general public on the proposed 3% average fare increase for FY 2020. The public comment period began on October 30 and ran through November 23, 2018. VRE held a total of ten public hearings – four during lunchtime at locations near VRE’s four inner stations and six in the evening at convenient locations across the VRE jurisdictions. VRE also encouraged riders who could not attend the hearings to submit comments directly via email.
VRE received 32 emails during the public comment period and 13 people attended the public hearings. At the public hearings, there was general acceptance of the need for the proposed fare increase, as riders understood the need to balance revenues against increasing expenses. However, some participants stated their opposition to the fare increase due to VRE’s reduced on-time performance during the summer months. Public comments received via email were varied but were predominantly in opposition to the proposed fare increase.

A summary of the public comments along with a compilation of each individual comment received is included as an attachment.

In addition, as required by VRE’s Major Service Change and Fare/Service Equity Policy, VRE conducted a Title VI analysis on the proposed FY 2020 fare increase. This analysis determined that the fare increase will not have a disparate impact based on race, color, or national origin, nor will it have a disproportionate burden on low-income populations. The Title VI memorandum is included as an attachment.

**Six-Year Financial Forecast**

The FY 2020 budget document includes a six-year financial forecast for the period FY 2020 through 2025. The forecast assumes the continuation of biennial 3% fare increases (in FY 2020, 2022, and 2024) and biennial 3% local subsidy increases (in FY 2019, 2021 and 2023). The forecast assumes modest capacity enhancements through lengthening of some existing trains, but no change in overall service level beyond the current 32 daily trains.

The significant funding gap that manifested in previous versions of this forecast due to a projected decline in funding for track access fees has been largely resolved as a result of actions by the General Assembly and DRPT. These commitments to continue current levels of reimbursement for track access fees have substantially improved VRE’s fiscal sustainability in the near-term. However, the long-term structural deficit facing VRE, with projected expenses outpacing revenues, is still apparent in the final year of the six-year forecast when farebox recovery dips below the required 50% threshold.

**Capital Budget and Six-Year Capital Improvement Program (CIP)**

The FY 2020 – 2025 Capital Improvement Program (CIP) is an integrated set of projects and programs that will improve passenger safety and operational efficiency, maintain the system in a state of good repair, and expand capacity. The six-year CIP includes both fully- and partially-funded projects.

In previous years, VRE chose to include several projects in the CIP that were largely or entirely unfunded. These ‘future projects’ had been identified as important to VRE’s long-term service planning but generally were still in the conceptual stages of project design; did not have identified funding commitments or plans to apply for such funding; and in some cases, were unlikely to be administered by VRE.
Beginning with this FY 2020 budget, VRE has chosen to remove these future projects from the formal six-year CIP and instead describe them separately in the FY 2020 Budget document. The decision to present these future projects separately does not mean the projects are not important; instead, it reflects that the projects are relatively undeveloped and are unlikely to be completed (or even substantially underway) during the six-year CIP period. As the projects move forward and as more reliable cost estimates are developed, they may be candidates to move into the formal six-year CIP in future budget years if VRE is identified as the lead entity responsible for project implementation.

As a result of the significant funding changes at the state level in 2018, the outlook in the FY 2020 to FY 2025 CIP is more positive than in past years. These changes include the creation of the C-ROC Fund and the dedication of $15 million per year for VRE’s operating and capital needs, as well as a commitment by the state to continue current levels of reimbursement for track access fees. However, funding challenges remain for VRE, particularly beyond the immediate six-year period. On the capital side, certain key near-term projects are still partially unfunded, and while C-ROC and Capital Reserve funds may be available to fill some gaps, an ongoing VRE priority for FY 2020 will be to continue to work with local, state and other partners on securing additional funding for the commuter rail system. The statutory limitations on the use of VRE’s primary source of federal formula funding (the Section 5337 State of Good Repair program) further complicates the capital funding picture.

Beyond the six-year horizon, major investments such as Long Bridge and the various third track projects are unfunded and will require creative funding approaches that include a range of stakeholders.

Given current cost estimates, full funding of the projects in the FY 2020-FY 2025 CIP (including all costs to complete) will require approximately $813.5 million. Of this total, $703.7 million (86.5%) is already committed from a range of federal, state, regional, and local sources (this includes life-to-date funding through FY 2019). The table below represents VRE’s funded and unfunded project costs of $813.5 million for projects included in the CIP FY 2020 – FY 2025 Six Year Plan.

<table>
<thead>
<tr>
<th>PROJECT TYPE</th>
<th>PROJECT COST</th>
<th>FUNDED</th>
<th>UNFUNDED</th>
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<tbody>
<tr>
<td>Asset Management</td>
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<td>$15.6</td>
<td></td>
</tr>
<tr>
<td>Expansion</td>
<td>607.0</td>
<td>528.1</td>
<td>78.9</td>
</tr>
<tr>
<td>Replacement and Rehabilitation</td>
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<td>159.8</td>
<td>30.8</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$813.5</strong></td>
<td><strong>$703.7</strong></td>
<td><strong>$109.8</strong></td>
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</tbody>
</table>

Further details on the CIP by project and by funding source are provided in the attachments.
Commuter Rail Operating and Capital (C-ROC) Fund – Prioritization Criteria and Recommended Projects

In October 2018, the Commissions authorized the execution of a joint agreement for the distribution and allocation of C-ROC funds. In addition to designating NVTC to serve as the recipient of all funds from the C-ROC Fund (following the existing practice of having PRTC receive and manage VRE’s federal funds and NVTC receive and manage VRE’s state and regional funds), the agreement lays out an annual process for recommending evaluation criteria and a project list for the programming of C-ROC funds.

VRE staff engaged with the Operations Board members throughout the FY 2020 budget development process to develop a strategy for the use of C-ROC funds. As noted above, C-ROC funds are flexible and can be used (a) to support both operations and capital investment, (b) as a match to other state or federal funding sources, and (c) on a pay-as-you-go (PAYGO) basis or as the backing for a debt issuance. Based on strategic guidance provided by the Operations Board, the first criterion is that, until the Operations Board agrees that the financial environment requires otherwise, C-ROC funds should be programmed only for PAYGO capital investments. A long-term commitment of C-ROC funds to a debt issuance would significantly limit VRE’s future flexibility, and a commitment to operating expenses for service expansion should not be undertaken until the sustainability of the new service can be assured.

Given that overarching guideline, the additional criteria developed in conjunction with the Operations Board are presented below.

1) C-ROC funds should be prioritized to projects that are not eligible for typical VRE discretionary capital funding sources, such as DRPT SmartScale or NVTA regional funding.
2) C-ROC funds should be prioritized to projects where a commitment of C-ROC funding could leverage significant state or federal matching funds.
3) C-ROC funds should support projects that are necessary in order to allow for future capacity expansion.
4) VRE should continue to use the Capital Reserve to fund smaller needs (such as minor cost or scope changes in an existing project) and should use C-ROC funds on ‘transformative’ projects.
5) VRE should consider C-ROC funds as a supplementary funding source for the replacement of major existing assets such as railcars.

In the development of the FY 2020 budget and six-year CIP, five major projects were identified as potential candidates for the use of C-ROC funding to fill current funding gaps. These projects are the L’Enfant Station Improvements (previously two separate projects encompassing the L’Enfant platform expansion and L’Enfant Fourth Track), Crystal City Station Improvements, Woodbridge Station Improvements, South Manassas Third Track, and Broad Run Expansion.
The L’Enfant Station Improvements have been identified since the outset of the budget process as a likely candidate for C-ROC funding. The improvements in and around L’Enfant Station – which is VRE’s most heavily-used station – are critical to improving existing service reliability and flexibility and must be completed (in conjunction with the expansion of capacity across the Potomac River at Long Bridge) before any future expansion of service can be contemplated. However, the station’s physical location in the District of Columbia, rather than in Virginia, presents a major barrier to the pursuit of state- or regional-level funding sources such as NVTA, which require that the project be in Virginia. In addition, while the project does have replacement and rehabilitation aspects to it, it is primarily an expansion project, which limits the amount of federal 5337 (State of Good Repair) funding that can be applied. Therefore, the L’Enfant Station Improvements project clearly meets the first C-ROC criterion, as well as the third.

In November 2018, the online retailer and technology company Amazon announced that Northern Virginia had been selected along with New York City as the locations for the company’s planned new corporate headquarters. This initiative has the potential to transform the ‘National Landing’ area of Arlington and Alexandria in and around Crystal City over the next decade, with the infusion of up to 25,000 new Amazon workers and additional job growth expected in supporting industries. Significant transportation investments are planned as part of the initiative, including new Metrorail station entrances, additional bus service, improvements to Route 1, and a pedestrian walkway connecting Crystal City to National Airport.

VRE’s commuter rail service will also be critical to serving these expected new workers, and the planned relocation and expansion of VRE’s Crystal City Station has thus taken on additional importance. Following the announcement, VRE staff consulted with DRPT staff about options for achieving full funding of the project and ensuring timely completion. As a result of those discussions, VRE intends to apply for an FY 2020 Rail Enhancement Fund (REF) grant to cover the cost of construction for the station improvements (engineering and design costs are already funded). The REF program requires at least a 30% local match, and this budget recommends that VRE use C-ROC funds as the source of that match. This would clearly meet the second C-ROC criterion above (i.e., leveraging significant state funds), as well as the third criterion regarding future capacity expansion.

The remaining projects (Woodbridge Station, Manassas Third Track, and BRX) will likely be considered for C-ROC funding in future budget cycles.

Based on these criteria and prioritized projects, the recommended allocations of C-ROC funding are as follows:

- **FY2019 (Amended):** $15 million for L’Enfant Station Improvements
- **FY 2020:** $15 million for Crystal City Station Improvements (match to potential REF grant)
- **FY 2021:** $15 million for L’Enfant Station Improvements
The recommended C-ROC allocations for Amended FY 2019 and FY 2021 are shown in the L’Enfant Station project page later in this document. These allocations of C-ROC funding reduce the unfunded amount for this project (given current cost estimates) from $38.2 million to $8.2 million. However, given that the news regarding Amazon and the decision to pursue an REF grant for construction at Crystal City occurred very late in the budget process, as well as the uncertainty around exactly how much C-ROC funding may be needed, the CIP still shows the original funding plan and unfunded amount for Crystal City. VRE staff will work in close coordination with DRPT staff to refine the grant application and determine exactly how much C-ROC funding is needed if the application is successful. VRE staff expect to return to the Operations Board as part of the normal FY 2021 budget process and amend the FY 2020 C-ROC allocation to reflect (a) whether the REF grant application was successful and (b) if so, how much C-ROC match funding was needed.

**FY 2019 Amended Budget**

As part of the annual process of adopting the budget for the upcoming fiscal year, VRE also revises the current year budget to reflect updated projections for revenues and expenses. The revisions for the FY 2019 amended budget are as follows:

**Revenue**

- Increase in funding of $15.0 million to reflect the FY 2019 allocation of C-ROC funds. The General Assembly’s actions to create and fund C-ROC occurred after the adoption of the FY 2019 budget.
- Increase in state operating funds in the amount of $479,000 to reflect a higher funding amount than originally projected.
- Reduction of Virginia SmartScale funding to reflect a shift to fiscal years 2021-2023 for Alexandria Station Improvements ($3.0 million), Fleet Expansion Coaches (Fredericksburg Line) ($2.0 million) and Quantico Station Improvements ($1.0 million).
- A net increase to federal and state grant revenue by a total of $4.8 million related to additional federal and state grant funding for capital projects and a reduction in grant revenues required for Debt Service due to the railcar debt refinancing.
- Allocation of $754,000 in Capital Reserve funds for various projects (see below).

**Expenses**

FY 2019 operating contingency was reduced by a net $57,000 for various additions and revisions of current year operating and capital costs and revenue. The notable expense changes were: revision to Facilities Maintenance–Office Lease related to extension of the 127 South Payton Street office space, an increase of $81,000; an increase of $63,000 related to a one-year extension of the maintenance service agreement for the Scheidt & Bachmann Fare Collection system; an increase of $60,000 for the maintenance and service agreement for the PFM financial model.
Capital Program

Capital project obligations in FY 2019 were increased by $15.3 million to reflect additional available capital funding:

- Allocation of $15.0 million of Commuter Rail Operating and Capital (C-ROC) funds to the L’Enfant Station Improvements project.
- Reduction of obligations of Virginia Smart Scale funding to reflect a shift to fiscal years 2021-2023 for Alexandria Station Improvements (-$3.0 million), Fleet Expansion Coaches for the Fredericksburg Line (-$2.0 million) and Quantico Station Improvements (-$1.0 million).
- A net increase to federal and state grant obligations of $5.0 million related to additional federal and state grant funding for capital projects and a reduction in annual debt service associated with the VRA refinancing described above.
- Capital Reserve funds of $754,000 allocated for the purchase of forklifts ($290,000), renovation of the VRE Suite 201 office space ($285,000) and Mobile Ticketing Phase II ($179,000) projects.

Finally, the FY 2019 Amended and FY 2020 Recommended budgets include $128.5 million in committed funding for the Manassas Line Capacity Expansion program of projects from the I-66 Outside the Beltway Concessionaire payment. The Operations Board authorized VRE to submit this program of projects to NVTA for funding consideration in June 2017, but formal award of the funding by the Commonwealth Transportation Board did not occur until January 2018, after the approval of VRE’s FY 2019 budget by the Operations Board and the Commissions.

Authorization to Coordinate on CMAQ/RSTP Grant Applications

Each year as part of the budget process, VRE requests authorization to submit federal and state aid grant applications. This year, in addition to requesting authorization to apply for REF funding from DRPT to support construction of the Crystal City Station Improvements (as described above), VRE is requesting authorization to coordinate with Prince William County on a submission by the County for CMAQ/RSTP funding to complete final design of the Woodbridge Station Improvements project. The current estimated funding required to complete final design is $1.2 million.
Virginia Railway Express  
Operations Board  

Resolution  
9A-12-2018

Referral of the Amended FY 2019 and Recommended FY 2020 VRE Operating and Capital Budgets to the Commissions and Localities

WHEREAS, the VRE Master Agreement requires 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 2020 Operating and Capital Budget within the guidelines developed in cooperation with the chief administrative officers of the local jurisdictions; and,

WHEREAS, the FY 2020 budget recommends a 3% average increase in passenger fares over FY 2019 fares; and,

WHEREAS, in accordance with its Public Participation Policy, VRE has held public hearings across the VRE service area and solicited public comment on the recommended FY 2020 fare increase; and,

WHEREAS, in accordance with its Major Service Change and Fare/Service Equity Policy, VRE has conducted a Title VI analysis on the recommended FY 2020 fare increase and determined that the fare increase will not have a disparate impact based on race, color, or national origin, nor will it have a disproportionate burden on low-income populations; and,

WHEREAS, the FY 2020 budget recommends that total jurisdictional subsidy contribution remain unchanged at the FY 2019 level of $17,767,748; and,

WHEREAS, VRE staff recommends a budget based on a service level of 32 daily trains and average daily ridership of 18,700 trips; and,

WHEREAS, in accordance with the joint agreement between the Commissions for the distribution and allocation of Commuter Rail Operating and Capital (C-ROC) funds, the VRE Chief Executive Officer has proposed criteria for the prioritization and programming of C-ROC funds and has developed a list of recommended projects;
NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby recommend the Commissions adopt the FY 2020 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,

<table>
<thead>
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<th>Budget Type</th>
<th>Amount</th>
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<td>Operating Budget</td>
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<tr>
<td>Capital Budget</td>
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<tr>
<td>Total Operating and Capital</td>
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BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend the Commissions adopt the amended FY 2019 Operating and Capital Budget in the following amounts; and,

<table>
<thead>
<tr>
<th>Budget Type</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Operating Budget</td>
<td>$ 88,319,064</td>
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<tr>
<td>Capital Budget</td>
<td>$ 76,250,383</td>
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<tr>
<td>Total Operating and Capital</td>
<td>$164,569,447</td>
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</table>

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend 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 2019 and FY 2020; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend the Commissions authorize the Executive Director of NVTC to submit to the Commonwealth the approved budget as part of the FY 2020 state aid grant applications; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend the Commissions authorize the Chief Executive Officer of VRE to coordinate with Prince William County on a submission by the County for CMAQ/RSTP funding to complete final design of the Woodbridge Station Improvements project; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby recommend the Commissions authorize the Executive Director of NVTC to submit to the Commonwealth an FY 2020 Rail Enhancement Fund (REF) grant application for funding to complete construction of the Crystal City Station Improvements project; and,

BE IT FURTHER RESOLVED THAT, in accordance with the C-ROC prioritization criteria and recommended project list, the VRE Operations Board does hereby recommend the Commissions approve the commitment of $15 million of FY 2020 C-ROC funding as the required local match for a potential REF grant for construction of the Crystal City Station Improvements project; and,
BE IT FURTHER RESOLVED THAT, in accordance with the C-ROC prioritization criteria and recommended project list, the VRE Operations Board does hereby recommend the Commissions approve the commitment of $15 million of FY 2019 C-ROC funding and $15 million of FY 2021 C-ROC funding for construction of the L’Enfant Station Improvements project.

Approved this 14th day of December 2018

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Martin Nohe
Chairman

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Maureen Caddigan
Secretary