Agenda Item 10-A
Information Item

To: Chairman Nohe and the VRE Operations Board
From: Doug Allen
Date: November 16, 2018
Re: FY 2020 Budget Update

Summary:

The preliminary FY 2020 budget presented to the Operations Board in September included a funding gap of $1.9 million. As a result of revisions since that presentation, the funding gap in the FY 2020 budget has been reduced to approximately $0.4 million. VRE staff will continue to refine the budget assumptions and will present a balanced budget to the CAO Task Force in early December. Operations Board adoption of the budget is scheduled for December 14, 2018.

Introduction:

Staff presented the preliminary FY 2020 VRE Operating and Capital Budget to the Operations Board in September. Of the proposed $90.6 million operating budget (which includes $6.3 million for debt service and operating reserve), $1.9 million of projected expenses did not have an identified funding source. The budget includes a proposed 3% average increase in passenger fares.

Since the September presentation, VRE finance and operations staff have revised key assumptions in the budget based on updated information and projections, reviews of proposed departmental expenditures, and identification of one-time expenses. As of early November, the budget gap in the preliminary FY 2020 budget has been reduced to approximately $0.4 million.
Operating Budget Revisions:

The material revisions to the preliminary FY 2020 budget since September are summarized below. Revisions which caused a net increase in the budget gap (i.e., higher expense or lower revenue) are presented first, followed by those revisions that generated a net reduction in the budget gap.

**Ridership and Revenue:** Based on weaker ridership in the first quarter of FY 2019, projected Average Daily Ridership (ADR) for FY 2020 has been reduced from 19,000 to 18,500. However, many passengers are continuing to purchase multi-ride tickets while riding less frequently, and total fare revenue to date in FY 2019 is less than one percent below budget, leading to an increase in the average fare paid per trip. Therefore, in addition to lowering the ADR projection, the average fare projection for FY 2020 has been increased from $8.85 to $8.95. These changes lead to a net reduction in total fare revenue of $690,000 from the September preliminary budget. Staff will continue to monitor ridership in November and will update projections for the final recommended budget in December as needed.

**Norfolk Southern Access Fees:** Based on the updated Association of American Railroads (AAR) rate, the gross expected increase in access fee expenses for NS is $90,000. However, after accounting for expected federal and state reimbursements, the net increase to the FY 2020 budget gap is $14,400.

**Salary and Fringe Updates:** Salary and fringe updates totaling $134,000 were added to the FY 2020 budget to reflect the most current staffing and payroll levels for VRE’s direct employees.

**Divisional Budget Reductions:** VRE finance staff held individual budget meetings with representatives of all VRE’s operating divisions during October. Total budget reductions of $1.35 million were achieved during these meetings through a comprehensive review of the initial proposed budgets. In particular, costs for consulting and other contractual expenses were right-sized based on prior years’ experience and a detailed forecasting of FY 2020 needs.

**State Operating Assistance:** VRE finance staff have been working closely with staff from DRPT and members of the Transit Service Delivery Advisory Committee (TSDAC) on the implementation of the transit service funding reforms adopted earlier this year by the General Assembly. Although a final recommendation on the allocation of state operating assistance has not yet been reached, VRE finance staff are confident the final outcome will not include a significant reduction in VRE’s operating assistance as was contemplated in some earlier scenarios. Therefore, the projected state operating assistance has been increased by $500,000 over the September preliminary budget level.

**One-Time Expenses:** $400,000 in one-time costs associated with station painting can be funded using prior year surplus. Use of prior year surplus to fund this cost reduces the FY 2020 budget gap by $400,000.
Capital:

The six-year capital plan is still under review but has not changed significantly since the version presented to the Operations Board in September and the Capital Committee in October, with most revisions being related to updated project schedules and small refinements to project cost estimates.

Based on discussions with the Operations Board and Capital Committee, the L’Enfant Station and Fourth Track project is tentatively the top candidate to receive the initial programming allocation of FY 2019 and FY 2020 Commuter Rail Operating and Capital (C-ROC) funds. The recommended budget in December will finalize the evaluation criteria (as required in the C-ROC agreement between the Commissions) and prioritize the currently unfunded projects in the CIP against those criteria.

Closing the Remaining Operating Gap:

VRE staff will continue to revise and update the budget in conjunction with the CAO Task Force. The following updates to revenues and expenses are expected to be considered to close the remaining budget gap:

- Contractual increases in train operations and maintenance of equipment costs are based on changes in the Consumer Price Index (CPI). The relevant CPI data will be available in mid-November. The preliminary budget is based on an assumed 4% increase, but the actual figure is expected to be lower, which will be reflected in the final budget.
- Further review of ridership and fare revenue trends in November. Average daily ridership in October was approximately 18,650, an improvement over ridership during the first three months of the fiscal year.
- Further information from the ongoing TSDAC process that may provide clarity on expected state operating assistance in FY 2020 (and beyond).
- Ongoing review of departmental operational costs and potential one-time expenditures.
- As a final measure, if necessary, a reduction of the $3 million annual contribution to the VRE Capital Reserve established in FY 2015 or a reduction in the 2% budgeted contingency could be considered.

Finally, although the total jurisdictional subsidy in FY 2020 will be unchanged from FY 2019 at $17.8 million, the allocation of the subsidy among the individual jurisdictions will be calculated using data from the latest Master Agreement survey. The survey was conducted in early October, and the final results are usually available soon after Thanksgiving. VRE staff will then present a balanced budget to the CAO Task Force for their review in early December. Operations Board adoption of the FY 2020 budget is scheduled for December 14, with approval by the Commissions on January 3, 2019.