Agenda Item 8-B
Action Item

To: Chairman Nohe and the VRE Operations Board

From: Doug Allen

Date: September 21, 2018

Re: Referral of Preliminary FY 2020 VRE Operating and Capital Budget to the Commissions and Authorization for Public Hearings on Proposed Fare Increase

Recommendation:

The VRE Operations Board is asked to authorize the Chief Executive Officer (CEO) to refer the preliminary FY 2020 VRE Operating and Capital Budget to the Commissions for their consideration, so the Commissions, in turn, can refer their preliminary budget recommendations to the jurisdictions for review and comment. The Operations Board is also asked to authorize the VRE CEO to hold a series of public hearings to solicit comments from riders and the general public, in accordance with the Public Participation Policy, on the proposed 3% average fare increase included in the preliminary FY 2020 budget.

Summary:

VRE’s preliminary FY 2020 operating budget totals $90.6 million, which includes operations, maintenance, and existing debt service. This is an increase of $2.0 million or 2.3% over the approved FY 2019 operating budget. The preliminary operating budget includes a proposed 3% average fare increase and no change in the jurisdictional subsidy. The preliminary operating budget has a current net unfunded amount of $1.9 million.
VRE’s preliminary FY 2020 capital budget includes commitments of $64.7 million from federal, state, regional, and local funding sources towards the Capital Improvement Program (CIP). The preliminary budget does not yet include formal recommendations for the programming of VRE’s funds from the newly created Commuter Rail Operating and Capital (CROC) fund. These recommendations will be developed in coordination with the Operations Board and the Commissions in the coming months and included in the final FY 2020 budget.

As in prior years, VRE will submit a balanced budget in December for the Operations Board’s consideration and referral to the Commissions for final approval. Projections of both revenue and expenses are still under review by VRE staff and may change over the next few months.

**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 is attached for the Operations Board’s review.

Since the adoption of the FY 2019 budget, significant changes to transit funding in the Commonwealth were implemented by the General Assembly in the spring of 2018. Three changes in particular will have an immediate impact on VRE:

- As part of a broader legislative package addressing funding for WMATA, the CROC Fund was created, and $15 million annually will be deposited in the Fund. The CROC Fund may be used to support both operating and capital costs of VRE.
- The transit capital matching program will be restructured to focus DRPT’s limited resources on ensuring transit systems across Virginia remain in a state of good repair (SGR).
- DRPT’s transit operating assistance program will also be restructured so all operating support is allocated based on transit service delivery factors, rather than just a portion of the funding as is currently the practice.

The impact of these legislative changes is discussed in greater detail below.

VRE’s Financial and Debt Principles addresses the prioritization of projects within the CIP 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.*

In addition to these first-level priorities, the CIP decision-making for FY 2020-2025 emphasizes VRE’s commitment to the development of railroad infrastructure in the CSXT
Key Operating Budget Assumptions:

VRE’s preliminary FY 2020 operating budget totals $90.6 million. This includes $84.3 million for daily operations maintenance (up $2.5 million or 3.1% from FY 2019) and $6.3 million for debt service (down $0.5 million from FY 2019 as a result of the refinancing of the RRIF loan). As noted above, both revenues and expenses are still under review and these projections may change over the next few months. The key assumptions used in preparing the preliminary operating budget are summarized below:

1. **Service levels**: VRE will continue its current service plan of 32 daily revenue trains in FY 2020.

2. **Ridership and fare revenue**: FY 2020 fare revenue is budgeted at $44.3 million, an increase of $1.9 million or 4.5% over the approved FY 2019 level. This increase is driven by three factors: the proposed 3% average fare increase (discussed in greater detail below); a higher number of service days in FY 2020 (252 versus 250); and shifts in rider behavior and purchasing of fare media that are increasing the average fare paid per trip. Average daily ridership (ADR) is currently projected at 19,000 for FY 2020, which is unchanged compared to the FY 2019 approved budget level. ADR in FY 2018 was 18,974, so this preliminary budget assumes no growth relative to the most recently completed fiscal year. VRE’s ridership has been and will be experiencing both positive and negative impacts – transit ridership in the region and nationwide continues to face challenges, but VRE’s ridership may increase during the summer of 2019 when WMATA closes Blue/Yellow Metrorail stations that parallel VRE’s service (see next item). Staff will continue to closely monitor ridership trends throughout the budget process and update projections accordingly.

3. **Service during WMATA closure**: WMATA has announced it will be closing Blue/Yellow Metrorail stations south of Reagan National Airport for a three-month period during the summer of 2019 to undertake major platform repairs. Similar closures for shorter periods of time during the SafeTrack efforts led to increases in VRE ridership. NVTC and WMATA have been leading a coordinated regional effort to find solutions to mitigate this closure, and VRE is a key part of those efforts. VRE has had preliminary discussions with Keolis regarding options to add supplemental capacity during this period, but no decisions have yet been reached. Therefore, this preliminary budget does not include any assumptions regarding additional costs associated with the closure. If decisions are reached prior to December that are likely to impact costs in FY 2020, staff will include that in the final recommended budget. If such decisions are reached later, and are material enough to require a budget amendment, staff will bring such an amendment to the Operations Board as soon as possible.
4. **Jurisdictional subsidy**: FY 2020 jurisdictional subsidy is budgeted at $17.77 million, unchanged from FY 2019. In conjunction with the proposed 3% average fare increase, this preliminary budget continues the Operations Board’s policy guidance to alternate each year between fare increases and jurisdictional subsidy increases in order to sustainably fund the costs of providing VRE service.

5. **State operating assistance**: As part of the package of transit legislation adopted by the General Assembly in May 2018, all state operating assistance provided to transit agencies in Virginia will now be allocated based on certain performance metrics known as transit service delivery factors. Factors such as ‘cost per trip’ are used to measure the efficiency of the transit provision and then compared across service providers. The Transit Service Delivery Advisory Committee (TSDAC) is currently working with stakeholders to develop a proposal to the Commonwealth Transportation Board for implementing this new requirement, and VRE has provided comments to TSDAC regarding how to compare VRE (as a commuter rail operator) with bus operators. The preliminary FY 2020 budget includes $8.5 million in state operating assistance, a significant reduction from recent years. This is the result of analysis by both VRE and Commission staff of the likely impact of using the existing service delivery factors with no changes but applying them to the entire pool of funding for operating assistance. However, VRE staff is encouraged by the dialogue so far with TSDAC and DRPT staff on this topic, and this projection may change in the coming months as the TSDAC proposal is developed further.

6. **Access fee reimbursement**: VRE pays track access fees to its host railroads (Amtrak, Norfolk Southern, and CSX) for the right to operate service. VRE recently renewed its five-year access agreement with Norfolk Southern and a similar renewal with Amtrak is expected in mid-2019. The track access agreement with CSX continues to be renewed on a year-to-year basis. Since 2015, DRPT and VRE have entered into multi-year agreements for reimbursement of the access fees. These fees have been reimbursed using a combination of federal STP funds allocated through the state (50%) and a state capital match (34%), with the local jurisdictions responsible for the balance (16%).

Access fees are one of the largest single items in VRE’s budget, and concerns had been raised during the recent discussions over the ‘transit fiscal cliff’ and the constraints facing DRPT that this funding approach would be changed, with reduced state support requiring additional local contribution. However, as part of the transit legislative package in the General Assembly, the state has committed to continuing the current funding approach for access fees. This continued funding support will be critical to VRE’s fiscal sustainability and represents a very positive commitment by the state to VRE.

7. **Diesel fuel costs**: Diesel fuel expenses of $4.25 million are budgeted based on estimated annual usage of 1.7 million gallons at a per gallon cost of $2.50. While diesel fuel prices have increased substantially from the lows of recent years, VRE’s fuel
consultant is not projecting further significant increases in the short term. However, staff will continue to monitor fuel cost trends during the budget process and adjust the projections if needed.

8. **Staffing increases**: The preliminary budget does not include any additional full-time employees, but VRE continues to evaluate staffing and resource needs for FY 2020 and beyond, particularly for the development and implementation of the Capital Improvement Program (CIP) and associated administrative functions.

**Proposed Fare Increase and Public Hearings:**

VRE’s zone fares are based on distance traveled, with most riders boarding in the morning at an ‘outer’ zone (Zones 3 through 9) station and disembarking at an ‘inner’ zone (Zones 1 and 2) station, and then reversing that trip in the afternoon. While VRE does offer single-ride and day passes, most regular riders purchase multi-ride tickets that offer a discounted fare. As described in VRE’s Tariff, the 10-ride pass for any given zone pair is priced at 8% less than ten corresponding single-ride tickets. Similarly, the five-day pass is priced at a 20% discount, and the monthly pass is priced at a 34% discount (assuming 42 trips per month).

In reviewing the Tariff and the fare table in preparation for the FY 2020 budget process, it was determined VRE has been slightly over-discounting its multi-ride tickets, meaning riders have been charged slightly less than what the Tariff calls for. For riders buying a ticket with an origin or destination in Zones 1 and 2, which represent over 90% of the tickets sold, the discrepancies are in the range of 1%. For example, a rider purchasing a 10-ride pass to travel between Broad Run and L’Enfant (Zone 6 to Zone 1) currently pays $89.10, a discount of 9% versus ten single-ride tickets at $9.80 each. The price with the correct 8% discount should be $90.20.

In order to correct these discrepancies going forward and ensure adherence to the Tariff, the FY 2020 budget proposes a 3% *average* fare increase. This is a two-step process: first, correct the discounting of the multi-ride tickets, and then impose a smaller increase (1.5%) on the base fare and the zone increment charge such that the fare increase for most riders falls in the range of 2.5% to 3.5% and the overall increase (weighted for how many tickets of each type are purchased for each zone pair) is approximately 3% or slightly lower.

The proposed FY 2020 fare table, which was calculated using this approach, is attached to the resolution. As part of this preliminary budget, VRE is also requesting authorization to hold public hearings on the proposed fare increase, in accordance with VRE’s Public Participation Policy. In the past, such hearings have been held in the winter or early spring, after the budget has been approved by the Commissions but before final action by the jurisdictions. Beginning with this budget cycle, VRE recommends moving the fare hearings to the fall, before action on the recommended budget by the Operations Board and the Commissions. Staff believes this will provide an opportunity for more meaningful input from the public on the proposed changes.
VRE staff have developed a preliminary list of ten public hearings for late October and November, with four hearings during lunchtime at locations near VRE’s four inner stations, and six hearings in the evening at convenient locations across the VRE jurisdictions. The public comments received at these hearings will be provided to the Operations Board members for their review prior to the consideration of the final recommended budget in December.

**Capital Funding:**

After seeking and successfully securing a substantial amount of discretionary grant funding over the past few years, VRE does not have as much capital funding to obligate in FY 2020, and the focus for VRE will be on moving forward with project delivery and spending of prior year funds. The major capital funding that is expected to be obligated in FY 2020 includes:

- **Federal formula funds**: Federal funding allocations are lagged by one year relative to VRE’s fiscal year, so the federal funding allocated in Federal Fiscal Year (FFY) 2019 will be available to be obligated and spent beginning in VRE’s FY 2020. Based on funding received in FFY 2018, total projected formula funding for FFY 2019 is $32.2 million. This includes $23.6 million in Section 5337 State of Good Repair funding and $8.6 million in Section 5307 Urbanized Area Formula Program funding.

As in previous years, VRE’s formula funds will be committed to debt service, asset management programs, and key CIP projects such as the New York Avenue midday storage facility and VRE’s joint responsibilities at Washington Union Terminal. However, given that projected funding is now higher than last year ($32 million versus $29 million) debt service costs are lower, full funding has been obligated for the Lifecycle Overhaul and Upgrade (LOU) Facility, and asset management funding needs have been reduced, there remains federal funding of approximately $8.9 million that has not yet been allocated for FY 2020. Staff continues to look at options for utilizing this funding and expects to have the funding fully obligated as part of the recommended budget in December.

- **State capital match**: The state capital matching program is being restructured in accordance with the transit legislation adopted by the General Assembly. The program will focus on funding state of good repair (SGR) efforts at transit agencies across the Commonwealth, with a minimum of 80% of the available funds going to such projects. Requests for funding will be evaluated based on a transit asset management framework that emphasizes the age and condition of the asset and aims to reduce the backlog of assets that are not in a state of good repair. The maximum state match will be 68%. VRE staff are continuing to work with DRPT staff to understand how VRE’s capital needs may be evaluated in this new framework. The preliminary budget assumes a continuation of the 16% state match on debt service and asset management, as well as the 34% state match on midday storage
and Washington Union Terminal, but these figures may be modified as discussions with DRPT continue.

• **Discretionary state and regional funding:** The FY 2020 budget will obligate previously allocated CMAQ funds for the Brooke and Leeland Road stations as well as parking improvements at Quantico station. SmartScale funding for Brooke and Quantico stations and parking at Leeland Road will also be obligated. Finally, NVTA recently included $4 million in FY 2020 in its Six Year Plan for VRE to complete final design efforts on the Crystal City station improvements, and those funds are also included.

**Commuter Rail Operating and Capital (CROC) Fund:**

The preliminary budget does not include recommendations for the use of the new CROC funds, and staff anticipates significant discussion with the Operations Board and the jurisdiction staff during the Fall of 2018 before final decisions are reached and included as part of the recommended FY 2020 budget. However, based on projections to date, it seems clear the initial FY 2019-20 CROC funds are not needed to support VRE operations, nor is there an immediate need to leverage the funds in the form of a debt issuance. Instead, the initial FY2019-20 CROC funds are likely to be programmed for critical capital projects on a pay-as-you-go basis. The programming of these funds, as well as CROC funds further out in the six-year forecast, will be the subject of a detailed discussion with the Capital Committee and the Operations Board in October.

**Next Steps:**

VRE staff will continue to update and modify the FY 2020 budget throughout the Fall as the current year progresses and as more information is received that may impact budget projections. VRE staff will review the budget with the CAO Task Force and ultimately provide a balanced budget to the Operations Board in December for consideration and approval.
Virginia Railway Express
Operations Board

Resolution
8B-09-2018

Referral of Preliminary FY 2020 VRE Operating and Capital Budget to the Commissions and Authorization for Public Hearings on Proposed Fare Increase

WHEREAS, the VRE Master Agreement requires the VRE Operations Board submit to the Commissions a preliminary fiscal year budget by September 30 each year; and,

WHEREAS, the VRE Chief Executive Officer has provided the VRE Operations Board with the preliminary FY 2020 Operating and Capital Budget; and,

WHEREAS, the preliminary FY 2020 budget proposes a 3% average fare increase effective the first week of July 2019 with the start of the FY 2020 budget, as reflected in the proposed fare table accompanying the preliminary budget;

WHEREAS, in accordance with VRE’s Public Participation Policy, VRE must hold public hearings to solicit comments from riders and the general public on the proposed fare increase included in the preliminary FY 2020 budget;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board refers the preliminary FY 2020 Operating and Capital Budget to the Commissions for their consideration; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends the budget be forwarded to the jurisdictions for further formal review and comment; and,

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby authorize the Chief Executive to solicit comment through public hearings across the VRE service area related to the proposed 3% average fare increase; and

BE IT FURTHER RESOLVED THAT, VRE staff is directed to consider and address comments by the jurisdictions and to forward a final recommended budget to the VRE Operations Board at the December 2018 meeting for consideration and referral to the Commissions for adoption in January 2019;
Approved this 21st day of September 2018

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Martin Nohe
Chairman

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Maureen Caddigan
Secretary