VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

ITEM 6.6
PRTC Regular Meeting
December 5, 2019

Agenda Item 10-A
Information Item

To: Chair Cristol and the VRE Operations Board

From: Rich Dalton

Date: November 15, 2019

Re: FY 2021 Budget Update

Summary:

The preliminary FY 2021 budget presented to the Operations Board in September included a funding gap of $2.1 million. As a result of revisions since that presentation, the funding gap in the FY 2021 budget has been eliminated, and the budget is currently balanced. VRE staff will continue to refine the operating budget assumptions as needed, but no major changes are expected. VRE staff will review the final budget – including individual jurisdictional subsidy amounts for FY 2021 – with the CAO Task Force in early December, and Operations Board recommendation of the budget to the Commissions is scheduled for December 20, 2019.

Introduction:

Staff presented the preliminary FY 2021 VRE Operating and Capital Budget to the Operations Board in September. Of the proposed $93.0 million operating budget (which includes $6.3 million for debt service and operating reserve), $2.1 million of projected expenses did not have an identified funding source. The budget includes a proposed 3% increase in total jurisdictional subsidy and no change to passenger fares.

Since the September presentation, VRE finance and operations staff have revised key assumptions in the budget based on updated information and projections and reviews of proposed departmental expenditures. As of early November, the budget gap in the preliminary FY 2021 budget has been eliminated, and the budget is currently balanced.

Operating Budget Revisions

The material revisions to the preliminary FY 2021 budget since September are summarized below. The revision to state operating assistance represents the only substantial negative change (i.e., a reduction in revenue or increase in expense). The other changes are positive and serve to reduce the funding gap.

<u>Ridership & Revenue</u>: Based on strong ridership to date in FY 2020, projected Average Daily Ridership (ADR) for FY 2021 has been increased from 18,700 to 18,900. (Ridership for July through October 2019 has averaged just over 19,100 per day.) At the current average fare of $9.25 per trip, this results in a projected increase to annual revenue of approximately $460,000.

<u>Interest Income</u>: Based on current market rates and investment balances, projected revenue from interest income has been increased by $300,000.

<u>Diesel Fuel</u>: Both utilization (volume) and the projected per gallon price have been updated based on recent experience and forward-looking guidance from VRE's diesel fuel consultant. Volume has been lowered from 1.75 million to 1.70 million gallons, and the projected price has been lowered from $2.60 to $2.30. Taken together, these changes have reduced projected diesel fuel expense by $640,000.

<u>Divisional Budgets</u>: Continuing the efforts initiated in FY 2020, VRE has worked to "right-size" its divisional budgets by eliminating line-item contingencies and reducing budgeted expenditures for areas such as outside consulting to more closely align with both historical experience and likely future activity levels. In total, budgeted divisional expenditures across VRE have been reduced by over $1.0 million compared to the September preliminary budget.

<u>State Operating Assistance</u>: VRE finance staff have continued to work closely with staff from the Virginia Department of Rail and Public Transportation (DRPT) regarding the recent methodological changes to the allocation of state operating assistance. Given current uncertainty about the outcome of next year's allocation process, a slightly more conservative forecast is appropriate, and the projected operating assistance has been reduced by $300,000 (from $10.0 million to $9.7 million). If additional information is received that results in a change to this assumption, the recommended budget will be updated as needed.

<u>Other Items</u>: Minor increases and decreases were made to a number of other items in the budget since September, including salaries and fringes and access fees to Norfolk Southern. Taken together, these changes had no net impact on the funding gap.

As noted above, VRE staff will continue to review and refine the budget assumptions in the next few weeks prior to adoption, including a final determination of contractual cost increases for Keolis and an evaluation of likely insurance premium increases in FY 2021. Any notable revisions will be communicated to the CAO Task Force and the Operations Board prior to adoption, and the final budget will remain balanced.

Finally, the allocation of the subsidy among the individual jurisdictions will be calculated using data from the most recent Master Agreement survey, which was conducted in early October 2019. Final survey results are usually available soon after Thanksgiving and will be incorporated into the final budget for CAO Task Force review in early December.

Capital Budget Update

The six-year Capital Improvement Plan (CIP) is still under review, as project schedules and costs continue to be refined. The current CIP has not changed significantly since the version presented to the Operations Board in September, with two exceptions. VRE has received updated cost estimates for the L'Enfant Station Improvements project – which includes an expanded and relocated station and platform as well as a fourth main track between the Virginia (VA) and L'Enfant (LE) interlockings – and the New York Avenue midday storage project. These cost updates reflect the latest project designs, timelines, unit costs, and contingencies for complexity and uncertainty. The midday storage cost estimate, in particular, reflects new information about likely land acquisition requirements. VRE staff are in the process of vetting these updated cost estimates.

While both projects are critical to VRE's future operations, staff will continue to review these cost estimates and associated plans to ensure project objectives are being met in the most cost-effective manner possible. VRE staff will return to the Operations Board in December with further details on the cost estimates as well as proposed funding sources. For midday storage, VRE has chosen to program federal 5307 (urbanized area) and 5337 (state of good repair) funds to that project, and VRE has additional unprogrammed federal funds in future years that could be put toward the project. For L'Enfant Station, as noted during the FY 2020 budget process, that project is a natural candidate for Commuter Rail Operating and Capital (C-ROC) funding. VRE also received positive feedback from USDOT on its previous BUILD Grant application for L'Enfant Station design and could consider re-applying to that program once the project is closer to construction.

C-ROC Funding Prioritization and Recommendation

The joint agreement between NVTC and PRTC for the administration of the dedicated C-ROC funding requires the Operations Board annually set out evaluation criteria and a project list for the programming of C-ROC funds. VRE staff engaged with the Operations Board members during the FY 2020 budget process to develop criteria and strategic guidance. At the conclusion of the budget process, the Operations Board agreed to commit $15 million of C-ROC funding to the Crystal City Station Improvements project (FY 2020 funding) and $30 million to the L'Enfant Station Improvements project (FY 2019 and FY 2021 funding).

Although C-ROC funds are highly flexible, the original guidance provided by the Operations Board was that, until the financial environment requires otherwise, C-ROC funds should be programmed for PAYGO capital investments. The Operations Board also expressed a clear preference for using C-ROC to support "transformative" projects when possible. VRE staff believes that guidance is still appropriate in the current environment. Given that, the criteria developed for FY 2020 also appear to be appropriate for FY 2021:

1) C-ROC funds should be prioritized to projects that are not eligible for typical VRE discretionary capital funding sources, such as SMART SCALE 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.

If the Operations Board agrees to use these same criteria in FY 2021, the L'Enfant Station Improvements project would be staff's initial recommendation for programming additional C-ROC funding within the current CIP. However, VRE staff have also been engaged in preliminary discussions with DRPT regarding potential funding packages for Long Bridge. Although Long Bridge is not currently in VRE's CIP, it would clearly be "transformative" for the region and for VRE's long-term growth. VRE could potentially support the Commonwealth's Long Bridge funding efforts by committing future C-ROC funds.