

MOTION:

SECOND:

RE: AUTHORIZE THE REFERRAL OF THE PRELIMINARY FY2021 VRE OPERATING AND CAPITAL BUDGET TO THE JURISDICTIONS

ACTION:

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

WHEREAS, The VRE Chief Executive Officer has provided the VRE Operations Board with the Preliminary FY2021 Operating and Capital Budget; and

WHEREAS, the preliminary FY2021 budget proposes a three percent increase in the total annual jurisdictional subsidy and no increase in passenger fares; and

WHEREAS, VRE can achieve superior budget risk reduction related to diesel fuel price volatility through investment in forward pricing mechanisms such as future contracts rather than the current practice of entering into fixed price contracts with diesel fuel suppliers; and

WHEREAS, the VRE Operations Board directed the VRE Chief Executive Officer to develop appropriate policies and procedures and an oversight process for diesel fuel price hedging, in accordance with the requirements of Virginia Code §2.2-4329.1, and to bring those materials to the Operations Board for review and approval; and

WHEREAS, the VRE Operations Board recommends the following action.

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission (PRTC) hereby authorizes the Preliminary FY2021 VRE Operating and Capital Budget be forwarded to the jurisdictions for their formal review and comment.

BE IT FURTHER RESOLVED that PRTC directs staff to consider and address comments by the jurisdictions and to forward a final recommended budget to the VRE Operations Board at the December 2019 meeting for consideration and referral to the Commissions for adoption in January 2020.

Votes:

Ayes:

Abstain:

Nays:

Absent from Vote:

Alternate Present Not Voting:

Absent from Meeting:



VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

Agenda Item 9-A
Action Item

To: Chair Cristol and the VRE Operations Board

From: Doug Allen

Date: September 20, 2019

Re: Referral of the Preliminary FY 2021 VRE Operating and Capital Budget to the Commissions and Authorization to Initiate Diesel Fuel Price Hedging

Recommendation:

The VRE Operations Board is asked to authorize the Chief Executive Officer (CEO) to refer the preliminary FY 2021 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 develop policies and procedures and an oversight process for VRE to hedge its diesel fuel price risk through investment in financial instruments as authorized by Virginia Code §2.2-4329.1 ("Energy Forward Pricing Mechanisms").

Summary:

VRE's preliminary FY 2021 operating budget totals \$93.0 million, which includes operations, maintenance, and existing debt service. This is an increase of \$3.7 million or 4.1% over the approved FY 2019 operating budget. The preliminary operating budget includes no change to passenger fares and a proposed 3% increase in the total jurisdictional subsidy. The preliminary operating budget has a current net unfunded amount of \$2.1 million.

VRE's preliminary FY 2021 capital budget includes commitments of \$69.2 million from federal, state, regional, and local funding sources towards the Capital Improvement Program (CIP). The preliminary budget includes the commitment of \$15 million in FY 2021 Commuter Rail Operating and Capital (C-ROC) funding towards the L'Enfant Station



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Transportation Commission
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Arlington, VA 22201
703-524-3322



Virginia Railway Express
1500 King Street, Suite 202
Alexandria, VA 22314
703-684-1001
VRE.org



Potomac and Rappahannock
Transportation Commission
14700 Potomac Mills Road
Woodbridge, VA 22192
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Improvements Project that was approved by the Operations Board as part of the FY 2020 budget process. Both prior and future year C-ROC programming decisions will be reviewed as part of the FY 2021 budget process.

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, with oversight provided by the CAO Taskforce, and are likely to be modified over the next few months.

Background:

In accordance with the VRE Master Agreement, which outlines the process for annual budget approval, the preliminary FY 2021 VRE Operating and Capital Budget is attached for the Operations Board's review.

Significant changes to transit funding in the Commonwealth – including the creation of C-ROC and the restructuring of DRPT's transit capital matching and transit operating assistance programs – were implemented by the General Assembly in 2018. These changes were incorporated in VRE's FY 2020 budget, and they continue to shape VRE's decisions and priorities as reflected in this preliminary FY 2021 budget.

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 2021-2026 emphasizes VRE's commitment to the development of infrastructure in the host railroads' territories; project readiness; funding availability; and the identification of funding to complete those projects that have only partially identified funding.

Key Operating Budget Assumptions:

VRE's preliminary FY 2021 operating budget totals \$93.0 million. This includes \$86.7 million for daily operations and maintenance (up \$3.7 million or 4.5% from FY 2020) and \$6.3 million for debt service (unchanged from FY 2020). As noted above, both revenues and expenses are still under review and these projections are likely to be modified 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 2021.

2. **Ridership and fare revenue:** FY 2021 preliminary fare revenue is budgeted at \$43.6 million, a decline of \$0.2 million or less than half a percent below the approved FY 2020 level. A revenue decline of slightly less than \$0.5 million is assumed as a result of the proposed transition from the calendar monthly pass to the 31-day pass on VRE Mobile. Average daily ridership (ADR) is currently projected at 18,700 for FY 2021, which is flat to the FY 2020 approved budget level. ADR across all twelve months of FY 2019 was 18,053, reflecting negative impacts from both the federal government shutdown in January and the service reliability challenges during the spring, as well as positive impacts in June from the Metrorail shutdown.

This preliminary budget assumes that VRE maintains recent 'normal' ridership levels (e.g., ADR in May 2019 before the Metrorail shutdown was 18,656). Given capacity constraints on the most popular trains as well as continued declines in ridership on Mondays and Fridays due to changing work and travel patterns, ADR is expected to be relatively stagnant until new railcars can be added to lengthen trains, although increased marketing efforts do have the potential to draw new customers. Staff will continue to closely monitor ridership trends throughout the budget process and update projections accordingly.

3. **Jurisdictional subsidy:** FY 2021 jurisdictional subsidy is budgeted at \$18.30 million, an increase of 3% over FY 2020. In conjunction with the assumption of no passenger fare increase in FY 2021, 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.
4. **State operating assistance:** As part of the package of transit legislation adopted by the General Assembly in 2018, all state operating assistance provided to transit agencies in Virginia is now allocated based on certain performance metrics known as transit service delivery factors. In FY 2020, VRE is receiving a total of \$10.7 million in state operating assistance, which consists of \$9.7 million of performance-based operating assistance and \$1.0 million of "transition assistance." The preliminary FY 2021 budget assumes \$10.0 million in state operating assistance, a reduction from the current year, but this figure may be updated as VRE staff continues to coordinate with DRPT staff on further refinements to the data sources and methodology of the allocation process.
5. **Access fee reimbursement:** VRE pays track access fees to its host railroads (Amtrak, Norfolk Southern, and CSX) to operate service on their railroads. While VRE has five-year access agreements with Amtrak and Norfolk Southern, the track access agreement with CSX continues to be renewed on a year-to-year basis. Access fees are one of the largest single items in VRE's budget, and 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%).

6. **Diesel fuel costs:** Diesel fuel expenses of \$4.55 million are budgeted based on estimated annual usage of 1.75 million gallons at a per gallon cost of \$2.60. 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. VRE also intends to change how it mitigates the risk of future price volatility, as discussed below.
7. **Staffing increases:** As noted during the July 2019 discussion of key budget issues for VRE in FY 2021 and beyond, VRE has operated as a lean organization since its founding, and currently has only 50 direct employees. However, as VRE's service has grown and its capital plan expanded significantly (currently \$813.5 million in the approved FY 2020-2025 CIP), the need for additional administrative staff has also increased. The preliminary FY 2021 budget includes a placeholder for five additional full-time employees (FTEs) at a total cost (inclusive of benefits) of approximately \$450,000 (0.5% of the FY 2021 preliminary operating budget). The projected salaries are expected to range from \$45,000 to \$95,000 depending on the experience and responsibility of the position.

These proposed employees are needed to ensure VRE is timely and accurate in its payment of invoices, its initiation and management of contracts, its accounting and submission of grant reimbursements, and its reporting to the many partners (federal, state, regional, and local) who support VRE. The risks to VRE of continuing to manage this expanded program with the current level of staffing are potentially severe, including delayed reimbursements and restricted cash flow; loss of effective control over major design and construction contracts; and audit findings, which could result in repayment of prior funding or loss of future funding.

Staff will return in October to the Finance Committee for an in-depth review of the proposed new employees.

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 2021, and the focus will be on moving forward with project delivery. The major capital funding that is expected to be obligated in FY 2021 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) 2020 will be available to be obligated and spent beginning in VRE's FY 2021. Based on funding received in FFY 2019, total projected formula funding for FFY 2020 is \$32.0 million, including both Section 5337 State of Good Repair funding and 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. Staff continues to look at options for utilizing currently unprogrammed funding but is also choosing to keep some funding uncommitted until updated cost estimates are received for the midday storage project.

- **State capital match:** The state capital matching program has been restructured in accordance with the transit legislation adopted by the General Assembly. The program focuses 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 are 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 ensure VRE's needs can be accurately assessed 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 2021 budget will obligate previously allocated CMAQ funds for the Broad Run Expansion, Backlick Road Station Improvements, and the Brooke and Leeland Road Station Improvements. State SMART SCALE funding for fleet expansion coaches on the Fredericksburg Line will also be obligated.

Commuter Rail Operating and Capital (C-ROC) Fund:

The preliminary budget does not include any specific recommendations for the programming of C-ROC funds beyond the prior commitments of \$15 million to Crystal City (FY 2020) and \$30 million to L'Enfant (FY 2019 and FY 2021). However, discussions with the Operations Board about unfunded needs within the six-year horizon of the Capital Improvement Program (CIP) are planned for the October Finance Committee, and additional future commitments of C-ROC funding are expected as part of the final recommended budget in December. Based on projections to date, C-ROC funds are not currently needed to support VRE operations, nor is there an immediate need to leverage the funds in the form of a debt issuance.

Hedging of Diesel Fuel Risk with Futures Contracts

As noted above, total diesel fuel expenses in the FY 2021 preliminary budget are projected at \$4.55 million based on usage of 1.75 million gallons at an average price of \$2.60 per gallon. Diesel fuel prices per gallon have varied widely over the past decade, fluctuating generally above \$3.00 from 2011 through 2014, then dropping sharply to less than \$1.25 in early 2016, and then increasing slowly since then to the current price range between \$2.00 and \$2.50.

Currently, VRE can choose to lock in diesel fuel prices in future months through the diesel fuel suppliers or can pay 'spot' or market prices. VRE makes these decisions based on guidance from a diesel fuel consultant and pays extra to the suppliers for the ability to lock the price. However, VRE has the option – under Virginia Code §2.2-4329.1 (“Energy Forward Pricing Mechanisms”) – to instead hedge its diesel fuel price risk through investment in futures contracts and other financial instruments.

The goal of investing in these instruments would be budget risk reduction – essentially insurance against future price volatility – and not speculation or investment returns. Specifically, this strategy would allow VRE to hedge over longer periods of time (beyond the current fuel supply contracts) while also being cheaper than the current fixed price contracts.

The Virginia Code includes limitations and requirements for public bodies who pursue these energy forward pricing mechanisms. Hedging cannot extend more than 48 months out, and the public body cannot hedge more than its estimated usage. In addition, the public body must develop policies and procedures to guide the hedging investments and must also institute an oversight process.

Staff presented information on diesel fuel hedging to the Finance Committee in May 2019 and received positive guidance to bring the issue to the Operations Board. Staff now requests authorization from the Board to develop the necessary policies/procedures and oversight process.

Next Steps:

VRE staff will continue to update and modify the FY 2021 budget throughout the Fall as the current fiscal 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.

VRE staff will also return to the Operations Board with proposed policies and procedures related to diesel fuel price hedging, as well as a proposed Board-level oversight process to ensure compliance with the requirements of Virginia Code §2.2-4329.1.

FY 2021 Summary Proposed Budget						
Category	Approved FY 2020		Proposed FY 2021		Changes	% Change
	FY 2020 Operating	FY 2020 Capital	FY 2021 Operating	FY 2021 Capital		
Revenue:						
Fare Revenue	43,810,000		43,625,000		(185,000)	-0.4%
Miscellaneous Revenue	225,000		225,000		-	0.0%
Jurisdictional Subsidy	13,230,397	4,537,351	13,817,632	4,483,148	533,032	3.0%
Other Sources (Use of Prev. Surplus)	-	-	-	-	-	0.0%
NVTA Grant Funding	-	4,000,000	-	-	(4,000,000)	
State CROC Dedicated Funding	-	15,000,000	-	15,000,000	-	
Federal/State Subsidy - Operating	31,462,978		32,171,256		708,278	2.3%
Federal/State Subsidy - Capital		41,197,349		49,762,602	8,565,252	20.8%
Operating/Capital Reserves	-	200,000	-	-	(200,000)	-100.0%
Interest Income	500,000		1,000,000		500,000	100.0%
Total Revenue	89,228,375	64,934,700	90,838,887	69,245,750	5,921,562	3.8%
Operating/Non-Operating Expenses:						
Non-Departmental Operating	5,365,598		5,531,094		165,496	3.1%
Executive Management	1,504,700		1,284,200		(220,500)	-14.7%
Chief of Staff	675,100		687,600		12,500	1.9%
Marketing	425,550		442,071		16,521	3.9%
Finance and Human Resources	4,394,000		4,303,800		(90,200)	-2.1%
Purchasing and Contract Administration	620,250		637,850		17,600	2.8%
Project Development	996,520		1,119,126		122,606	12.3%
Project Implementation	1,278,000		1,249,500		(28,500)	-2.2%
Rail Operations	2,258,000		2,410,500		152,500	6.8%
Information Technology	2,140,500		2,381,850		241,350	11.3%
Facilities Maintenance	4,389,700		4,773,700		384,000	8.7%
Mechanical Operations	10,854,200		11,414,200		560,000	5.2%
System Safety & Security	1,294,500		1,498,000		203,500	15.7%
PRTC	104,000		102,000		(2,000)	-1.9%
NVTC	90,000		90,000		-	0.0%
Train Operations	16,287,000		16,944,500		657,500	4.0%
Maintenance of Equipment	6,868,000		7,993,785		1,125,785	16.4%
Amtrak	4,881,000		5,039,000		158,000	3.2%
Amtrak Access Fees	6,630,000		6,879,000		249,000	3.8%
Norfolk Southern Access Fees	3,390,000		3,432,000		42,000	1.2%
CSX Access Fees	8,510,000		8,468,000		(42,000)	-0.5%
Total Operating/Non-Operating Expenses	82,956,618	-	86,681,776	-	3,725,158	4.5%
CIP Expenditures		64,934,700		69,245,750	4,311,050	
Debt Service/Allowance for Doubtful Accts	6,271,757		6,270,838		(919)	
Total CIP and Other Expenditures	6,271,757	64,934,700	6,270,838	69,245,750	4,310,131	6.1%
Grand Total Expenses	89,228,375	64,934,700	92,952,614	69,245,750	8,035,289	5.2%
Difference by Fund	-	-	(2,113,727)	-	(2,113,727)	
Total Difference	-	-	(2,113,727)	(2,113,727)	(2,113,727)	

FY 2021 Sources and Uses

LEVEL OF SERVICE FOR FY 2021

Daily Trains	Avg. Daily Riders
32	18,700

Access Fees	
Amtrak	6,879,000
NS	3,432,000
CSX	8,468,000
Total	18,779,000

	USES OF FUNDS	SOURCES OF FUNDS												
								-----STATE-----			-----FEDERAL-----			
		FARE INCOME	INTEREST	MISC	LOCAL SUBSIDY	OTHER SOURCES	NVTA FUNDING	STATE CROC FUNDING	STATE OPERATING	STATE CAPITAL	STATE STP	5307/5337	OTHER	TOTAL
Operating Expenses	86,665,776	43,625,000	1,000,000	225,000	15,521,416	-	-	-	10,000,000	6,384,860	9,389,500	520,000	-	86,665,776
Non-Operating Expenses:														
Operating Reserve	66,000				66,000									66,000
Debt Service BTMU - Gallery IV - 11 Cabcars	1,931,357				77,254					309,017		1,545,086		1,931,357
Debt Service VRA - 60 Railcars (Local)	99,072				99,072									99,072
Debt Service VRA - 60 Railcars (Fed/State/Local)	4,190,409				167,616					670,465		3,352,327		4,190,409
Non-Operating Summary	6,286,838	-	-	-	409,943	-	-	-	-	979,483	-	4,897,413	-	6,286,838
Total Expenses (Subtotal)	92,952,614	43,625,000	1,000,000	225,000	15,931,358	-	-	-	10,000,000	7,364,343	9,389,500	5,417,413	-	92,952,614
Capital Projects:														
Facilities Asset Management Program	2,290,000				91,600					366,400		1,832,000		2,290,000
New York Avenue Midday Storage Facility	12,072,745				482,910					4,104,733		7,485,102		12,072,745
Equipment Asset Management Program	3,845,000				153,800					615,200		3,076,000		3,845,000
Security Enhancements	105,000				4,200					16,800		84,000		105,000
Security Cameras	300,000				12,000					48,000		240,000		300,000
Crystal City Station Improvements	669,713				26,789					107,154		535,770		669,713
Washington Union Station Improvements	5,000,000				200,000					1,700,000		3,100,000		5,000,000
Unprogramed Federal Formula Funds	12,796,254				511,850					2,047,401		10,237,003		12,796,254
L'Enfant Station Improvements (CROC)	15,000,000				-			15,000,000		-		-		15,000,000
Capital Reserve Contribution	3,000,000				3,000,000									3,000,000
Capital Project Summary	55,078,712	-	-	-	4,483,148	-	-	15,000,000	-	9,005,688	-	26,589,876	-	55,078,712
CMAQ/REF/IPROC														
Broad Run Expansion (CMAQ)	1,000,000				-					200,000		-	800,000	1,000,000
Backlick Road Station Improvements (CMAQ)	2,000,000				-					400,000		-	1,600,000	2,000,000
Brooke Station Improvements (CMAQ)	245,019				-					49,004		-	196,015	245,019
Leeland Road Station Improvements (CMAQ)	245,019				-					49,004		-	196,015	245,019
Fleet Expansion Coaches (Smartscale)	10,677,000				-					10,677,000		-	-	10,677,000
Summary	14,167,038	-	-	-	-	-	-	-	-	11,375,008	-	-	2,792,030	14,167,038
TOTAL	162,198,364	43,625,000	1,000,000	225,000	20,414,507	-	-	15,000,000	10,000,000	27,745,038	9,389,500	32,007,289	2,792,030	162,198,364

FY21 Subsidy surplus (deficit)	18,300,780
	(2,113,727)

	Program	Funding	Federal Amt	State Amt
Soft Capital Projects				
Debt Service 11 Cabcars	1,931,357	5337	1,545,086	309,017
Access lease funding (50%/34%)	18,779,000	SSTP/State	9,389,500	6,384,860
Local only Debt Service VRA - 60 Railcars	99,072		-	-
Fed/State/Local Debt Service VRA - 60 Railcars	2,444,405	5337	1,955,524	391,105
Fed/State/Local Debt Service VRA - 60 Railcars	1,746,004	5307	1,396,803	279,361
Grant & Project Management	650,000	5307	520,000	-
Subtotal	25,649,838			7,364,343
Capital Projects/Earmarks	69,245,750		29,381,906	20,380,696
Federal Cap Program	94,895,588		44,188,819	27,745,038