



VIRGINIA RAILWAY EXPRESS  
OPERATIONS BOARD

**Agenda Item 9-D**  
**Action Item**

**To: Chair Walkinshaw and the VRE Operations Board**

**From: Rich Dalton**

**Date: September 15, 2023**

**Re: Referral of Preliminary FY 2025 VRE Operating and Capital Budget to the Commissions and Authorization for Public Hearings on Proposed Fare Changes**

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**Recommendation:**

The VRE Operations Board is asked to authorize the Chief Executive Officer (CEO) to refer the preliminary FY 2025 VRE Operating and Capital Budget to the Commissions for their consideration, so the Commissions can, in turn, 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 public hearings to solicit comments from riders and the public, in accordance with the Public Participation Policy, on proposed fare changes included in the preliminary FY 2025 budget.

**Summary:**

VRE's preliminary FY 2025 operating budget totals \$119.9 million, which includes operations, maintenance, and existing debt service. This is an increase of \$11.0 million or 10% over the approved FY 2024 operating budget. In addition to continuing VRE's existing weekday rail service, the proposed budget provides for the first-ever operation of VRE weekend service. The preliminary operating budget includes a total jurisdictional subsidy of \$18.3 million and a proposed 5% fare increase as well as other changes to simplify fares. VRE's last broad-based fare increase was 3% in FY 2020. Approximately \$38 million of pandemic relief funding (from the American Rescue Plan Act) is projected to be utilized in the preliminary FY 2025 operating budget. Staff will review and update all expense and revenue assumptions as the budget process moves forward, particularly for potential departmental expense reductions.



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VRE's preliminary FY 2025 capital budget includes commitments of \$70.2 million from federal, state, regional, and local funding sources towards the Capital Improvement Program (CIP). VRE continues to work closely with the Department of Rail and Public Transportation (DRPT), the Virginia Passenger Rail Authority (VPRA), and the Northern Virginia Transportation Authority (NVTa) to advance capital projects that are critical to the Transforming Rail in Virginia (TRV) program and to expanding commuter and intercity rail across the Commonwealth. The CIP will be updated during the budget process as project schedules and cost estimates are refined. In accordance with the Funding Agreement between VRE and VPRA, VRE's \$15 million of annual dedicated Commuter Rail Operating and Capital (CROC) funding in FY 2025 will support \$7.5 million of principal and interest payments on the Series 2022 Bonds and \$7.5 million of contributions to VPRA in support of the Long Bridge project.

A final balanced FY 2025 budget will be submitted in December for the Operations Board's consideration and referral to the Commissions for approval. Projections of both revenues and expenses are still under review by VRE staff and may change materially based on updated ridership trends, macroeconomic conditions, contractual cost drivers, or policy changes. The final FY 2025 budget (which will include an amended FY 2024 budget) will ensure VRE can continue to provide safe and reliable rail service, to meet its commitments to the Commonwealth as part of the TRV program, and to equitably share the costs of service among riders, local jurisdictions, the Commonwealth.

#### **Background:**

In accordance with the VRE Master Agreement, which outlines the process for annual budget approval, the preliminary FY 2025 VRE Operating and Capital Budget is attached for the Operations Board's review.

As noted during the July 2023 Operations Board meeting, VRE faces a range of "key issues" in FY 2025, most of which relate to balancing the continued recovery of ridership following the COVID-19 pandemic with VRE's commitments to short-term and long-term expansions of service as part of TRV. This includes resuming regular changes to passenger fares and jurisdictional subsidy as the cost of providing service increases; expanding from VRE's traditional commuter market to offer weekend service; continuing to expand marketing and advertising efforts to grow VRE's customer base; and balancing the budget through a combination of passenger fares, jurisdictional contributions, new state dedicated funds, and remaining pandemic relief funds.

#### **Key Operating Budget Assumptions:**

VRE's preliminary operating budget totals \$119.9 million. This includes \$106.1 million for operations and maintenance (as compared to \$95.2 million in the approved FY 2024 budget) and \$13.8 million for debt service and operating reserve, which includes a capital lease for 11 railcars, the Virginia Resources Authority (VRA) financing for 60 railcars, and the Series 2022 CROC-backed revenue bonds. As noted above, both revenues and expenses continue to be reviewed and may change materially before adoption of the final budget. The key assumptions used in preparing the preliminary operating budget are summarized below.

## 1. Saturday Service

Based on positive feedback from initial discussions with the Operations Board and key stakeholders (including Keolis and the host railroads), VRE is planning for the introduction of Saturday service in FY 2025. The plan envisions three round trips on each line (Fredericksburg and Manassas), or a total of 12 one-way trains on Saturdays, as compared to the current schedule of 32 weekday trains. While many important capital projects are already underway, this will be the first major operational step toward realizing the promise of TRV. VRE staff are working closely with the key stakeholders to determine how best to deploy resources – both people and equipment – to provide the new service at a minimum cost.

The preliminary expense budget includes an order-of-magnitude estimate of the cost of additional Saturday service, but this figure will be refined in the coming months through additional service planning and discussions with VRE's partners. ***Saturday service or other service-related changes are subject to final approval of our host railroads and other stakeholders. We are including this initiative in the preliminary budget and working in parallel with our host railroads and other stakeholders to determine if we can make this a reality sooner rather than later.***

## 2. Ridership and Fare Revenue

While the pandemic emergency is over, a post-pandemic equilibrium for mass transit – particularly in the Washington DC region – has not yet been reached. For the third year in a row, projecting annual ridership is challenging and subject to significant uncertainty. Return-to-work initiatives for federal agencies appear to be ramping up for the fall of 2023, but their timing and ultimate impact are not yet known.

The impact of the pandemic on telework is clear in VRE's own survey data. Between 2012 and 2019, the average number of days of telework per week for VRE riders increased steadily, doubling from 0.3 to 0.6. In 2023, the average is now 1.7 days. Even as late as 2019, 60% of VRE riders reported working zero telework days per week, but that figure is down to only 32% in 2023, and 29% of riders reported having three or four days of telework each week.

Ridership is expected to continue to recover as some employees who are currently entirely remote (and thus not a part of VRE surveys at all) return at least partially to the office, while others currently only in the office one or two days per week start going in more frequently. But while the ultimate magnitude of the shift is unknown, clearly a shift has occurred that appears likely to particularly impact commute travel on Mondays and Fridays, and all transportation providers are in the process of adapting to these new patterns.

The preliminary FY 2025 budget assumes an average daily ridership of 8,500 on weekdays and 1,000 on Saturdays. These figures will continue to be refined as ridership results from September through November are incorporated, and an amended ridership figure for FY 2024 will also be part of the final budget adoption in December. At these ridership levels, and assuming the fare changes outlined below, projected passenger revenue in FY 2025 is \$23.0 million.

As projected, the average fare per trip has continued to decline from its pandemic-era highs as riders have “right-sized” their ticket buying for their new commuting patterns. Before accounting for any of the proposed fare changes, the average fare appears likely to settle slightly above the pre-pandemic value, which is what was expected given ticket-buying behavior and the proportional shift toward longer trips among the riders that have returned.

### **3. Jurisdictional Subsidy**

Using federal pandemic funds (from the CARES Act and then the American Rescue Plan Act), VRE has been able to provide relief the past three years (FY 2022-24) for local jurisdictions on their VRE subsidy. In FY 2021 (which was approved prior to the onset of the pandemic in March 2020), the total jurisdictional subsidy was \$18.3 million. In FY 2022 the total subsidy was reduced to \$4.8 million, and then has incrementally increased to \$13.5 million in FY 2023 and \$16.0 million in FY 2024. The preliminary FY 2025 budget includes a staff recommendation to return the total jurisdictional contribution to \$18.3 million. The preliminary FY 2025 budget does not include a projected allocation of the subsidy to each jurisdiction. In early October, VRE will conduct the annual Master Agreement Survey, and the results of the survey will be used to determine the allocation of the subsidy.

### **4. State Assistance for Operating and Capital**

FY 2024 is the final year that VRE will participate in the Commonwealth’s Making Efficient and Responsible Investments in Transit (MERIT) program. Beginning in FY 2025, VRE will instead receive up to 3.5% of the Commonwealth Mass Transit Fund (MTF). This dedicated amount will replace both the operating subsidy and the capital grant matching that VRE previously received through DRPT. This funding is separate from the track access fee reimbursement VRE receives through VPRA and from any previous grant agreements that VRE has with DRPT or VPRA. VRE is still eligible to apply for Smart Scale funding and other discretionary programs at the state level.

Based on prior projections of the total MTF funding available, VRE expects to receive approximately \$16 million in assistance in FY 2025. The preliminary budget has this funding allocated as \$7.9 million to operations and \$8.1 million as a match for capital. This projection will be updated with any new information received prior to December on MTF funding levels or performance-based impacts to VRE’s dedicated funding percentage.

### **5. Operating Expenses and Cost Growth**

After two years of significantly elevated inflation, projections for annual cost growth in most of the core areas of VRE’s preliminary operating budget are back in the range of 2-4 percent. This includes certain key items such as diesel fuel (projected at \$3.25/gallon), existing employee salaries (projected to increase by 4 percent), and host railroad track access fees (projected to increase by 4 percent).

The preliminary budget also includes planning-level estimates for the costs for three new full-time employee positions that are needed as VRE’s operating and capital programs continue to

grow. These positions would support facilities maintenance (including the recently opened Lifecycle Overhaul and Upgrade facility) as well as IT and administrative support. In constructing this preliminary budget, department heads have submitted plans for FY 2025 with nothing being deferred or having to “go without” relative to expenses. As noted above, as the budget process continues during the Fall, expense reductions will be identified as deferrals and eliminations are found, contingencies are reduced, and updated information on contract escalations is received.

## **6. Pandemic Relief Funds**

VRE has fully obligated all three tranches of its pandemic relief funding. CARES Act funds were spent first, with all \$86 million of CARES Act funding fully utilized as of the first quarter of FY 2023. American Rescue Plan (ARP) Act funds are being drawn down now, with approximately \$13 million of \$119 million drawn as of the end of FY 2023. Finally, once the ARP funds are expended, approximately \$70 million of CRRSAA funds remain available. Based on the approved FY 2024 budget, approximately \$32 million of ARP funds will be drawn in FY 2024. However, this figure will be updated as part of the Amended FY 2024 budget process as ridership and revenue results for the first half of the year come in, and the overall “spend down” profile for the pandemic relief funds will be updated at the same time.

### **Proposed Fare Changes and Public Hearings:**

VRE’s 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. In addition to single-ride and day passes, riders can also 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).

VRE’s last fare increase was proposed in 2018 and implemented in FY 2020. In the five years since that 3% fare increase, inflation (as measured by the Consumer Price Index) has reduced the purchasing power of every dollar of fare revenue by more than 18 percent. While avoiding fare increases during the height of the COVID-19 pandemic was an understandable response, the significant inflation in 2021 and 2022 has many agencies now weighing how best to raise revenue while also not turning off new and returning riders.

In looking at potential fare changes for FY 2025, VRE has considered peer commuter rail experience, feedback from customers, pricing in competing modes, and the overall financial needs of the organization. One theme that has emerged is “simplification,” with agencies reducing the number of unique ticket types, eliminating underutilized fare options, and generally working to make the fare buying process quick and easy for the rider. The proposals for FY 2025 below are likely only a first step as more feedback is gathered and additional changes are considered in future years.

- a) **Permanent reduced fare in zones 1-3:** VRE has been temporarily offering a reduced fare for riders making shorter trips that both start and end in zones 1, 2, or 3. This \$5.00 flat one-way fare (with corresponding reduced price multiride tickets) was originally offered as a mitigation for the Metrorail Yellow Line shutdown and then was extended as a promotional effort. Based on positive rider response, the \$5.00 reduced fare would be made permanent.
- b) **Increase base one-way fares by 5%:** For all trips that either start or end outside zones 1-3, the current zone pricing structure would be maintained with all base one-way fares increased by 5% (rounded to the nearest \$0.05). For a passenger currently paying a \$10.00 fare – which is the single-ride price for a trip from Quantico or Manassas into Washington DC and is also approximately the average fare paid across all riders – the cost would increase by \$0.50.
- c) **Eliminate 7-day pass:** The 7-day or weekly pass has historically been the least-used multiride VRE product, and given changed travel patterns since the pandemic, its use has fallen even further. For riders who don't travel enough to justify a monthly pass, the 10-trip pass is usually a better and more flexible option than the 7-day pass. Eliminating the 7-day pass will simplify fare purchasing for customers with little loss of value.
- d) **Kids Under 18 Ride Free:** VRE currently allows children 10 and under to ride free with a fare paying adult, while youth riders between 11 and 18 can purchase discounted tickets once they have a reduced fare ID. To simplify administration costs for staff while also encouraging riders on the new weekend service, this preliminary budget proposes that children 18 and under can ride free with a fare paying adult. If approved, the specific policy may be adopted to allow more than one child to ride with a paying parent or guardian, while prohibiting (for example) large groups of unrelated children to ride for free with a single adult.

The peer experience with pricing of weekend service varies widely. Some agencies offer no discount relative to weekday service, while others offer discounts or shift to a flat fare (rather than distanced-based) to encourage ridership. Given that many specifics of the proposed Saturday service in FY 2025 remain to be determined, this budget assumes that weekend fares will be the same as weekday fares. However, it is expected that promotional fares of some kind will be in place when the Saturday service is inaugurated, and the information gained from the initial service will inform future recommendations from staff to the Operations Board regarding potentially permanent changes to weekend fares.

VRE staff are also working with Amtrak and VPRA to bring back the Amtrak Step-Up program, which was suspended during the pandemic. This program allows riders holding a VRE multiride ticket to pay an additional fee and ride certain Amtrak trains within the VRE service area. VRE has received funding through the regional Commuter Choice program to support a reduction in the passenger-facing cost of this program. Prior to the pandemic, the cost to the passenger for an Amtrak Step-Up ticket was \$8.00. The new cost once the program has been reinstated has not been finalized, but it is expected to be substantially lower.

As part of this preliminary budget, VRE is requesting authorization to hold public hearings on the proposed fare increase, in accordance with VRE's Public Participation Policy. Staff would host both in-person and online/electronic meetings to explain the budget proposal and solicit comments on the fare changes and other aspects of the budget. These hearings would be announced in newspapers and in various electronic and social media outlets. The hearings would be the centerpiece of a broader communication effort and public comment period lasting a minimum of 30 days in which VRE would reach out to the public through various channels and request feedback.

### **Capital Funding:**

The major capital funding that is expected to be obligated in FY 2025 includes:

- *Federal formula funds:* Federal funding allocations are behind by one year relative to VRE's fiscal year, so the federal funding allocated Federal Fiscal Year (FFY) 2024 will be available to be obligated and spent beginning in VRE's FY 2025. As a result of the Infrastructure Investment and Jobs Act (IIJA), formula funding for transit agencies was increased significantly. Based on previous year funding allocations to the Section 5307 (Urbanized Area) and Section 5337 (State of Good Repair) programs, the amended FY 2023 and FY2024 VRE budgets will each include approximately \$42.4 million of federal formula 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 L'Enfant Station and Fourth Track. Staff continues to look at options for utilizing currently unprogrammed funding, including station expansions that also have a replacement component. Some portion of the funding is also likely to be needed on existing projects where cost estimates have increased.

- *State capital match:* While previously executed grant agreements remain in place (e.g., for debt service), VRE will now provide the "state" match for capital grants from the 3.5% dedicated allocation from the MTF. As noted above, the preliminary budget assumes that approximately \$8.1 million of that dedicated funding will be allocated towards capital match in FY 2025.
- *Discretionary state and regional funding:* The FY 2025 budget is expected to obligate previously allocated NVT, VPRA, and CMAQ funds for station projects at Crystal City, L'Enfant, and Woodbridge, respectively.
- *Commuter Rail Operating and Capital (CROC) Fund:* VRE completed the issuance of the 30-year CROC-backed Series 2022 Bonds in June 2022, and the proceeds of that issuance were transferred to VPRA to assist in the purchase of the CSX right-of-way. Of the annual \$15 million in CROC funds that VRE receives, \$7.5 million is now committed each year to debt service on those bonds. The remaining \$7.5 million each year, in accordance with the terms

of the Funding Agreement with VRPA, will support pay-as-you-go (PAYGO) capital contributions to key projects in the VRE service area – primarily Long Bridge, but also potentially the Alexandria Fourth Track and the Franconia-Springfield Bypass.



**Virginia Railway Express  
Operations Board Resolution**

**9D-09-2023**

**Referral of Preliminary FY 2025 VRE Operating and Capital Budget to the  
Commissions and Authorization for Public Hearings on Proposed Fare Changes**

**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 2025 Operating and Capital Budget; and,

**WHEREAS**, the preliminary FY 2025 budget proposes a total jurisdictional subsidy of \$18,300,780 and proposes a five percent increase in passenger fares effective the first week of July 2024 along with other changes to improve and simplify the fare structure; and,

**WHEREAS**, in accordance with VRE's Public Participation Policy, VRE must hold public hearings to solicit comments from riders and the public on the proposed fare changes included in the preliminary FY 2025 budget;

**NOW, THEREFORE, BE IT RESOLVED THAT**, the VRE Operations Board refers the preliminary FY 2025 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 Officer to solicit comment through public hearings related to the proposed five percent fare increase and other associated fare changes and to report the public comments received back to the Operations Board for consideration; and,

**BE IT FURTHER RESOLVED THAT**, VRE staff is directed to consider and address comments by the jurisdictions and to present a final recommended budget to the VRE Operations Board at the December 2023 meeting for consideration and referral to the Commissions for adoption in January 2024.

Approved this 15<sup>th</sup> day of September 2023

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James Walkinshaw  
Chair

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Ralph Smith  
Secretary