

Overview of Actions to Counteract the Effects of Rapid Rise in Fuel Prices

Presentation to
Potomac and Rappahannock
Transportation Commission
November 6, 2008

Background

- Unprecedented rise in fuel prices affecting PRTC in two ways
 - Higher than budgeted fuel costs
 - Ridership surge / overcrowding compelling more service
- Commission provisionally approved a plan to counteract these effects in July
 - Budget adjustments
 - Deployment of remaining “contingency fleet” buses
 - Prospective fare increase / fare indexing policy
 - Prospective supplemental appropriation

Background (continued)

- Conditions have changed since July
 - Fuel prices have abated (though still higher than budgeted)
 - Overcrowding more acute at times when fleet is fully tapped – need more buses
 - Prince William County (and other jurisdictions) facing added financial strains – neither a supplemental appropriation nor general fund support (as supplement to 2% tax) in the out-years now plausible
- Amendments to provisionally approved plan now being recommended to account for changed conditions

Three Related Actions the Commission is Being Asked to Approve at this Meeting

- Approval of two versions of plan amendments
 - One assumes recommended lease-purchase of four buses is approved; the other not
 - Approval of both versions sought in same action -- one or the other becomes operative depending on decisions related to other two actions
 - Supplemental appropriation scuttled in both versions
- Approval of two versions of fare increase
 - One assumes lease-purchase of four buses is approved; the other not
 - Only difference is OmniRide fare recommendation – 25 cents higher if lease-purchase is approved so added revenue stream from “surcharge” defrays cost of lease-purchase
- Approval of lease-purchase transaction for four buses
 - “Emergency” provisions of PRTC’s adopted purchase policy invoked to expedite procurement so overcrowding is alleviated ASAP
 - Paid in the first instance by available matched federal funds that get backfilled over time by “surcharge” revenue stream

How Do Recommended Actions Affect Prince William County?

- New out-year projections of fuel tax fund balance produced and compared with adopted five-year plan
- Out-year prognosis is much better than five-year plan projections based on conservative assumptions

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
PWC Adopted 5-year Plan	\$15,137,282	\$6,820,546	-\$528,883	-\$6,402,620	-\$12,269,383
Amendment With Lease-Purchased Buses	\$17,178,281	\$9,475,470	\$3,691,625	\$9,652	-\$2,478,603
Amendment Without Lease-Purchased Buses	\$17,178,281	\$9,563,893	\$3,797,648	\$48,175	-\$2,423,180

- Fuel tax fund balance not depleted until FY 2013 at the earliest; why?
 - Favorable changes in fuel tax and passenger revenue projections offset unfavorable changes (e.g., fuel; added service hours)

PWC Fund Balance FY 2013 “Deficit” – How Likely and What Could Avert This?

- Grant funding in higher-than-conservatively assumed amounts
 - Federal – SAFTEA-LU + CPI
 - State – Decline (only 30-40% of what’s eligible)
- Ridership / revenue gains that are higher-than-conservatively assumed
 - PRTC - 5%/year
 - VRE - 4%/year
- Higher PRTC and VRE fare increases than currently assumed
 - PRTC – 12-18% in FY 2009; 10% in FY 2011; 10% in FY 2013
 - VRE – 7% in FY 2009; 10% in FY 2010; no increase thereafter
 - Higher increases in those years or an increase in FY 2012 are plausible – each 1% increase yields \$230K/year for VRE and \$70K/year for PRTC
- Continued stock-taking to assess need for such actions

QUESTIONS?

**POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION**

RESOLUTION

MOTION: _____

**RESOLUTION NO. 08-11-_____
OFFICIAL COMMISSION MEETING
NOVEMBER 6, 2008**

SECOND: _____

**RE: AMENDED PLAN FOR ADDRESSING THE EFFECTS OF RAPID RISE IN
FUEL PRICES**

WHEREAS, the unprecedented rise in fuel prices is compelling PRTC to incur much higher fuel expenditures than budgeted and swelling ridership to the point that it is straining available capacity; and

WHEREAS, the resultant passenger revenue gains are less than the increased fuel expense combined with the expense of service increases that the surge is necessitating to avert overcrowding; and

WHEREAS, these conditions prompted PRTC management to propose a plan to counteract these effects that the Commission provisionally approved in July (hereinafter referred to as "the provisionally approved plan"); and

WHEREAS, the provisionally approved plan featured among other things a proposed FY 2009 mid-year fare increase, a fare indexing policy, and a proposed FY 2009 supplemental appropriation; and

WHEREAS, the proposed FY 2009 mid-year fare increase and fare indexing policy required a public review process that the Commission authorized at the July 2008 meeting; and

WHEREAS, the public review process has been concluded; and

WHEREAS, the financial condition of Prince William County has worsened since July when the Commission provisionally approved the plan, prompting the County's Budget Director to conclude that previously envisioned supplementation of 2% motor fuels tax revenue with general fund appropriations for transit in the out-years of the County's adopted five-year plan is no longer plausible; and

WHEREAS, in light of the foregoing conclusion, Prince William County's Budget Director recommended to the Prince William County Board of Supervisors (PWCBS) that PRTC and VRE confine expenditures such that the County's share of their local subsidies can be borne by the 2% motor fuel tax revenue alone; and

WHEREAS, this recommendation adds to the criticality of conserving 2% motor fuels tax revenue as much as possible; and

WHEREAS, to that end, management has concluded that it would be prudent to eliminate the previously proposed FY 2009 supplemental appropriation; and

WHEREAS, other changes have transpired since July that also warrant amendments to the provisionally adopted plan; and

WHEREAS, management's accompanying staff report details the changes being proposed to the provisionally adopted plan (hereinafter referred to as the "amended plan"), which can be accomplished without a supplemental appropriation in FY 2009 as previously proposed; and

WHEREAS, the Commission understands that the proposed amended plan has two versions, one featuring supplemental buses that management is recommending be lease-purchased in a separate action item (the "with buses" plan) and one without these supplemental buses (the "without buses" plan), both of which management is recommending for adoption with the proviso that the one which becomes operative is dependent on the decisions that the Commission makes on the separate "bus lease-purchase" and "fare increase" recommendations; and

WHEREAS, the Commission also understands that the two versions of the proposed amended plan also feature different recommendations for the proposed FY 2009 mid-year fare increase, each reflecting different conditions; and

WHEREAS, the Commission finds that both the "with buses" and "without buses" versions of the proposed amended plan are well-conceived and deserving of support.

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission does hereby approve both the "with buses" and "without buses" versions of the amended plan with the following proviso:

Only one of these two versions will become operative, depending on decisions the Commission is being asked to make in separate action items regarding the recommended lease-purchase of buses and the recommended fare increase.

November 6, 2008

TO: Chairman Jones and Commissioners
FROM: Alfred H. Harf
Executive Director
RE: Amended Plan for Addressing the Effects of Rapid Rise in Fuel Prices

Recommendation:

Approve two alternative, amended plans for counteracting the effects of higher fuel prices as proposed, mindful of the fact that decisions the Commission is being asked to make on two companion items elsewhere on this month's agenda for particular elements of the plan will govern which of the two alternatives becomes operative. The companion items include authorization approval requests for:

1. Implementation of a proposed FY 2009 mid-year fare increase and a proposed fare indexing policy; and
2. The lease-purchase of four buses to supplement the fleet as required to remedy overcrowding.

As noted, there are two alternative, amended plans: one premised on the approval of the "bus lease-purchase" action item (hereinafter referred to as the "with buses" plan) and the other premised on this action item not being approved (hereinafter referred to as the "without buses" plan). Because the recommended "bus lease-purchase" has cost, ridership, operational, and service ramifications, the complexion of the amended plan depends on whether the recommended "bus lease-purchase" is approved. Both alternative, amended plans are described at length, and what is being recommended here is the approval of both recognizing that the one which becomes operative is dependent largely on what the Commission decides with regard to the bus lease-purchase" item. Management's recommendations with regard to the "fare increase" are also tied to the "bus lease-purchase" decision, so this is another difference reflected in the "with buses" and "without buses" plans presented here.

Background:

At its July 2008 meeting, the Commission provisionally approved a plan management recommended to address the effects of the higher fuel prices (hereinafter referred to as “the provisionally adopted plan”)¹. The provisionally approved plan called for:

1. FY 2009 budget adjustments to increase the number of revenue hours, upwardly adjust the budget for fuel, and defer or reduce other non-mission-critical budgeted expenditures to free up resources to partially fund unbudgeted fuel and revenue hour expenditures;
2. A mid-year fare increase and adoption of a fare indexing policy to guide future fare pricing changes; and
3. A supplemental appropriation.

The plan was provisionally approved (as management had recommended) rather than being adopted outright for two reasons:

1. PRTC’s public participation policy requires a public review of prospective fare changes and the fare indexing policy before the Commission can consider their adoption; and
2. The magnitude of the supplemental appropriation proposed at the time was only tentatively-sized because conditions were still very dynamic, particularly with regard to fuel prices.

Following the July Commission action, management: launched the public review process to invite reactions to the proposed fare changes and the fare indexing policy (now completed); monitored fuel prices (looking for favorable “lock-in” opportunities to lessen the magnitude of unbudgeted fuel expenses for the fiscal year); and continued analyzing ridership levels to assess the extent of overcrowding compared to expectations back in July. Fuel prices did decline so further lock-ins have been executed (discussed further below) and, despite the recent fuel price declines, ridership remains much higher than expected with persistent overcrowding.

¹ A copy of the July 2008 staff report and resolution appears here as Attachment One for easy reference.

Management made a presentation outlining prospective changes to the provisionally approved plan at the October Commission meeting, described as “puts and takes” relative to the provisionally-approved plan, and laid out a series of contemplated, proposed Commission actions over time, including this one and two others on this month’s meeting agenda. The October presentation highlighted that: fuel expenses have changed for the better; overcrowding is more extensive than the provisionally approved plan envisioned (necessitating more buses rather than simply more hours); and favorable passenger revenue variances are now present (and growing), signaling the end of the “transitional” effects of the token-to-SmarTrip conversion and providing a prospective source of funding for unbudgeted expenses. While favorable passenger revenue variances are a normal expectation when ridership is better than budgeted, the “transitional” effects of the token-to-SmarTrip conversion had masked this back in July when the provisionally approved plan was conceived, so the provisionally approved plan did not contain any such favorable variance as a source of funding for unbudgeted expenses.

Since the October meeting, conditions have continued to change, altering the complexion of what management is now recommending as set of final amendments to the provisionally approved plan, compared to what was presented in October. Changes since the October presentation include:

1. PRTC’s estimated fuel expense for FY 2009 is still lower. Additional “futures” contracts for fuel have been purchased through the end of FY 2009², lessening the magnitude of unbudgeted expense to approximately \$810,000 (a reduction of \$529,000 compared with the provisionally approved plan).
2. Fact-finding about buses available for immediate lease, lease-purchase, or purchase has been completed. Vehicles identified in the October presentation have been inspected and financing proposals have been solicited to ready recommendations for the Commission’s consideration³.

² Fuel can be purchased on the “futures” market in 42,000 gallon increments. Because PRTC’s bus monthly fuel consumption amounts to over 90,000 gallons, PRTC can purchase as many as two contracts per month (i.e., 84,000 gallons). The remaining fuel PRTC needs ends up being purchased at “rack” prices, which is to say whatever the market price is at the time of the purchase.

³ A separate action item on this month’s agenda details the bus lease-purchase transactions management is recommending, so in this action item the bus lease-purchase transaction is referred to simply in terms of the total lease expense it entails through the end of FY 2009.

3. Overcrowding conditions have been examined in greater depth, resulting in lesser numbers of additional revenue service hours and buses needed to alleviate overcrowding. Only 8.34 – 9.23 more revenue hours are needed on an average daily basis (lesser numbers than the 10.5 hours called for in the provisionally approved plan, let alone the 19.5 hours reported in October), and only four additional buses are needed rather than the seven reported in October. The lower numbers are the end result of “load spreading” that has occurred naturally as customers sought out less crowded trips and management’s use of a more “forgiving” standard for what constitutes overcrowding.

You’ll note that the number of required “additional average daily revenue hours” is described as a range. The high end of the range represents the number of additional average daily hours that can be added in FY 2009 if the recommended “bus lease-purchase” action elsewhere on this month’s agenda is authorized, while the low end of the range represents the number of additional average daily revenue hours that can be added if that transaction is not authorized and other steps are taken to “squeeze” more of the existing buses into service⁴. By “other steps”, I am referring to:

- Retention of the 1989-vintage RTS buses in the active fleet for some eight months longer than desired (i.e., November 2009 instead of March 2009); and
- Slowing the progression of the Orion mid-life bus overhaul already in progress so only one bus is overhauled at a time instead of two for a period of ten months⁵.

Management strongly favors authorization of the bus lease-purchase transaction because the steps described here to expeditiously mitigate the overcrowding without the lease-purchased buses would be to the detriment of the operation but, if the bus lease-purchase transaction is not approved, these are steps that management would take because expedited relief of overcrowding is the “lesser of two evils”.

⁴ The estimates of required additional average daily revenue hours are sized for budgeting purposes, meaning that the estimates explicitly account for when in the fiscal year additional trips can be scheduled. If the recommended bus lease-purchase transaction is not approved, fleet capacity constraints are such that additional trips needed to alleviate overcrowding cannot be scheduled as soon as they can be if the transaction is approved, and this delay has the effect of lessening the number of service hours added over the course of the year.

⁵ Slowing the Orion mid-life overhaul in this fashion has longer-lasting effects because the mid-life overhaul planned for the 2002-vintage MCI buses would also be slowed, inasmuch as the MCI overhaul can’t begin until the Orion overhaul is completed. This “cascading” effect means deferring mid-life overhauls on 51 of PRTC’s commuter buses for longer than desired. The MCI overhauls will require two years to complete once they have been started, so some of the MCI’s will be nine years old before they are overhauled even with the present schedule, and older still if the Orion overhaul is slowed.

4. Passenger revenue tallies through September have been assembled, confirming the existence of a sizable and growing favorable variance, which provides a more substantial funding source for added expenses than reported in October.
5. Prince William County's property tax revenue outlook has worsened. County budget staff recently concluded that supplementation of the 2% motor fuels tax revenue with general fund appropriations for transit (VRE or PRTC) in the out-years of the County's five year plan is no longer plausible, notwithstanding the fact that the projections of revenues and expense in the most recently adopted five-year plan indicated that this would be necessary. As a result, at the Prince William County Board of Supervisors (PWCBS) October 21, 2008 meeting, County Budget Director Dave Tyeryar recommended that transit funding be confined to the 2% motor fuels tax yield over the five year plan period, and that PRTC / VRE management be urged to do what is necessary to "live within" that resource restraint (a copy of Mr. Tyeryar's presentation appears here as Attachment Two).

Clearly the County's worsened revenue outlook underscores the importance of being as judicious as possible about the use of 2% motor fuels tax revenue. Accordingly, PRTC management has concluded that the supplemental appropriation embedded in the provisionally adopted plan should not be sought, and thus it is not present in the proposed amended plan. The sizable favorable passenger revenue variance in the proposed amended plan compared to the provisionally adopted plan compensates for the elimination of the supplemental appropriation, as detailed later in this staff report.

Prince William County Budget Director Dave Tyeryar also recommended to the PWCBS at the October 21st meeting that amended five year projections of PRTC/VRE expenditures and resources be produced so the proposed amended plan can be viewed in a longer-term, multi-year context, and more particularly whether projected Prince William County local expenditures for PRTC/VRE can be funded singularly by the 2% motor fuels tax revenue yield. Management has produced the amended projections as suggested by Mr. Tyeryar, employing the latest available estimates of VRE expenditures⁶ and newly projected estimates of 2% motor fuel tax revenue based on Energy Information Administration (EIA) price projections and Virginia Division of Taxation fuel consumption estimates⁷. It is important to add that the EIA price projections have been vacillating significantly over the past few months, mirroring the swings in prevailing prices, so the projections at any point in time appear to be more a measure

⁶ The same ones being examined by the CAO Task Force in the "FY 2010 budget" review now underway.

⁷ The EIA estimates and the Taxation estimates of fuel consumption were produced in mid-October, so they are very current and account for the fuel price declines in recent months.

of where prevailing prices are at that moment in time rather than a predictor of where they will truly be. This is an important qualification because prices are down now and thus the projected revenue yield is as well, though the latest yield projections are still higher than the projections in the adopted five year plan.⁸

The amended five year projections for the “with buses” and “without buses” plans (combining PRTC and VRE expenditures for Prince William County alone) appear here as Attachment Four. They are contrasted with the projections in the County’s adopted five-year plan accompanying the FY 2009 budget. As shown, future year projections for both the “with buses” and “without buses” plans are markedly better than the projections in the adopted five-year plan. The adopted plan foresaw the depletion of the County’s 2% motor fuels tax fund balance by FY 2011 (when the “deficit” first materialized -- \$529,000), while the projected fund balance for both the “with buses” and “without buses” plans is not depleted until FY 2013. The reason for this is principally because the combined effect of higher 2% motor fuels tax yields and higher projections of passenger revenue more than offset the increased fuel, service hours, and (in the case of the “with buses” plan) the “lease-purchased buses” expense. While a projected 2% motor fuels tax fund balance “deficit” in FY 2013 does not quite square with Mr. Tyeryar’s recommendation to the PWCBOB on October 21st, it is important to recognize how speculative the projections are that far into the future so they are viewed in proper perspective. The projections are characterized as “speculative” for several reasons:

1. The magnitude and complexion of the federal reauthorization is unknown. With SAFETEA-LU set to expire on September 30, 2009, the incoming Congress is expected to take up the “reauthorization” question soon after convening, and there is a strong Congressional sentiment that federal transportation funding needs to be increased by a substantial amount. The projections don’t assume this – instead, they assume that federal transportation funding will remain essentially at current levels, which is appropriately but unmistakably conservative. It should also be noted that this is the same thinking underpinning the Commonwealth’s projections of federal funds, as reflected in Secretary Homer’s presentation to the CTB on October 15th (included among the attachments to the ED Report). The point is that this “unknown” is expected to become a “known” within the next year, and it is reasonable to expect that the outcome will be better than the assumptions underpinning these projections.

⁸ This can be seen by comparing the “revenue yield” projections dated March 2008 and the revenue yield projections dated October 2008 in Attachment Three. The former are the projections embedded in the adopted five year plan while the latter are the latest projections.

2. The projections assume that the General Assembly does not “fix” the state transportation funding problem stemming from the substantial collapse of HB-3202. Absent a “fix”, state funding is assumed to decline in the out-years. Again this is an appropriately but unmistakably conservative assumption.
3. The “deficit” is four years out, and is premised on a multitude of assumptions about the intervening years that are themselves subject to a great deal of uncertainty. With four more budget cycles before the projected “deficit” materializes, much of what is now prone to uncertainty will become certain (or more so).

All this said, management believes that the amended plan as proposed warrants approval because both the “with buses” and without buses” versions are a significant improvement when compared to the provisionally adopted plan, as the discussion and tables below confirm. The “with buses” and “without buses” versions of the proposed amended plan can be best described in terms of changes relative to the adopted FY 2009 budget. Because there is already a provisionally adopted plan, the tables below detailing the proposed changes show the succession of changes relative to the originally-adopted FY 2009 budget, differentiating between the provisionally adopted plan and this amended plan. Table One is the “with buses” version and Table Two is the “without buses” version. The numbers in brackets are expense increases or revenue decreases while the numbers without brackets are either revenue increases, freed-up revenues to defray a portion of the expense increases, or expense decreases. The numbers appearing in the “Difference” column refer to the change between the proposed amended plan and numbers in the provisionally adopted plan.

TABLE ONE: Proposed Amended Plan to Address
the Effects of the Rapid Rise in Fuel Prices (“With Buses”)

Item	Provisionally Adopted Plan	Proposed Amended Plan	Difference
Additional daily hours of service (10.5 in provisionally approved plan and 9.23 in proposed amended plan)	(\$291,000)	(\$294,300)	(\$3,300)
Offsetting passenger revenue associated with the increased daily hours of service	\$97,000	\$98,100	\$1,100
Increased fuel budget	(\$1,339,000)	(\$810,000)	\$529,000
Higher-than-budgeted state grant revenue	\$541,000	\$541,000	-0-
Reduced budgeted expenditures (non mission-critical)	\$90,000	\$137,500	\$47,500
More buses (lease cost for remainder of FY 2009)	-0-	(\$464,289)	(\$464,289)
More fareboxes (purchase of seven)	-0-	(\$88,000)	(\$88,000)
Favorable passenger revenue variance	-0-	\$147,563	\$147,563
Fare Increase (and fare indexing policy)	\$367,450	\$367,450	-0-
Supplemental Appropriation	\$534,550	-0-	(\$543,550)
Residual matched federal funds	-0-	\$373,976	\$373,976
CHANGE			-0-

Deleted: (\$617,872)

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**TABLE TWO: Proposed Amended Plan to Address
 the Effects of the Rapid Rise in Fuel Prices ("Without Buses")**

<u>Item</u>	<u>Provisionally Adopted Plan</u>	<u>Proposed Amended Plan</u>	<u>Difference</u>
Additional daily hours of service (10.5 in provisionally approved plan and 8.34 in proposed amended plan)	(\$291,000)	(\$266,000)	\$25,000
Offsetting passenger revenue associated with the increased daily hours of service	\$97,000	\$88,700	(\$8,300)
Increased fuel budget	(\$1,339,000)	(\$810,000)	\$529,000
Higher-than-budgeted state grant revenue	\$541,000	\$541,000	-0-
Reduced budgeted expenditures (non mission-critical)	\$90,000	\$137,500	\$47,500
More fareboxes (purchase of seven)	-0-	(\$88,000)	(\$88,000)
Favorable passenger revenue variance	-0-	\$29,350	\$29,350
Fare Increase (and fare indexing policy)	\$367,450	\$367,450	-0-
Supplemental Appropriation	\$534,550	-0-	(\$534,550)
CHANGE			-0-

The "favorable passenger revenue variance" amounts shown in the two tables are not estimates of the overall favorable passenger revenue variance expected for FY 2009 – they are only the amount of favorable passenger revenue variance being counted on a source of funding for each version of the proposed amended plan. The remaining favorable passenger revenue variance would be a carry-forward for ensuing years, lessening PRTC's reliance on 2% motor fuels tax revenue in the interest of conserving this revenue as much as possible as Prince William County's Budget Director has recommended to the PWCBOs. This thinking has been incorporated in the two versions of the five year projections discussed earlier.

Fiscal Impact:

The added expenses and added revenues relative to the adopted FY 2009 budget neutralize each other.

Attachments: As stated