

VALLEY METRO RAIL FY17 Budget EXECUTIVE SUMMARY



FY17 ADOPTED ANNUAL OPERATING AND CAPITAL BUDGET

Valley Metro Rail, Inc. (VMR) is a public non-profit corporation whose members are the cities of Chandler, Glendale, Mesa, Phoenix, and Tempe. VMR plans, designs, constructs and operates light rail/high-capacity transit system in metro Phoenix, Arizona.

FY17 Operating Activities

Total Operating Activities for FY17 are \$56.9 million, an increase of \$5.1M or 9.8% from FY16.

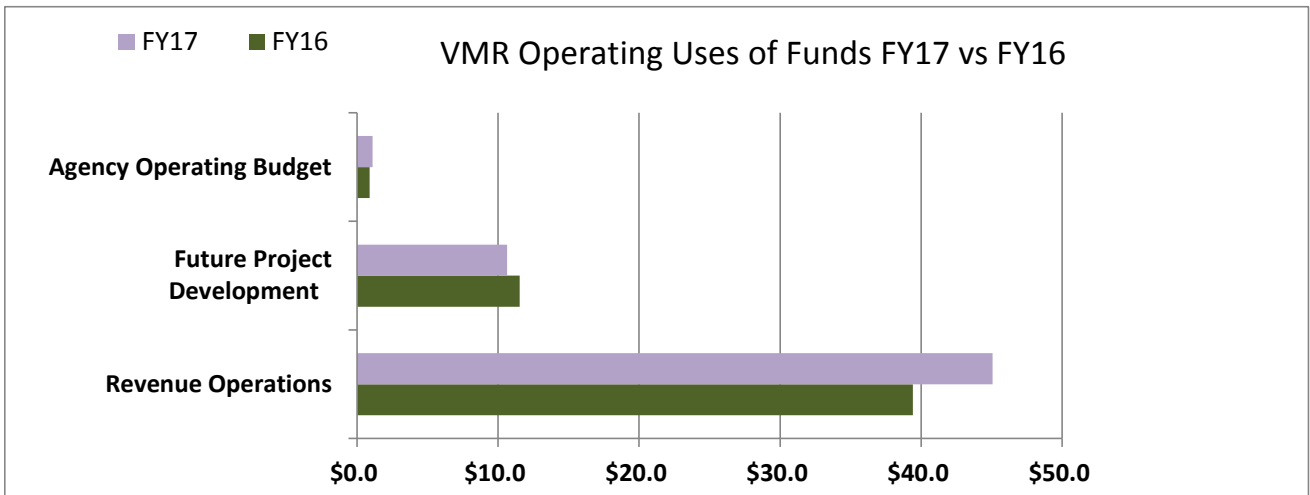
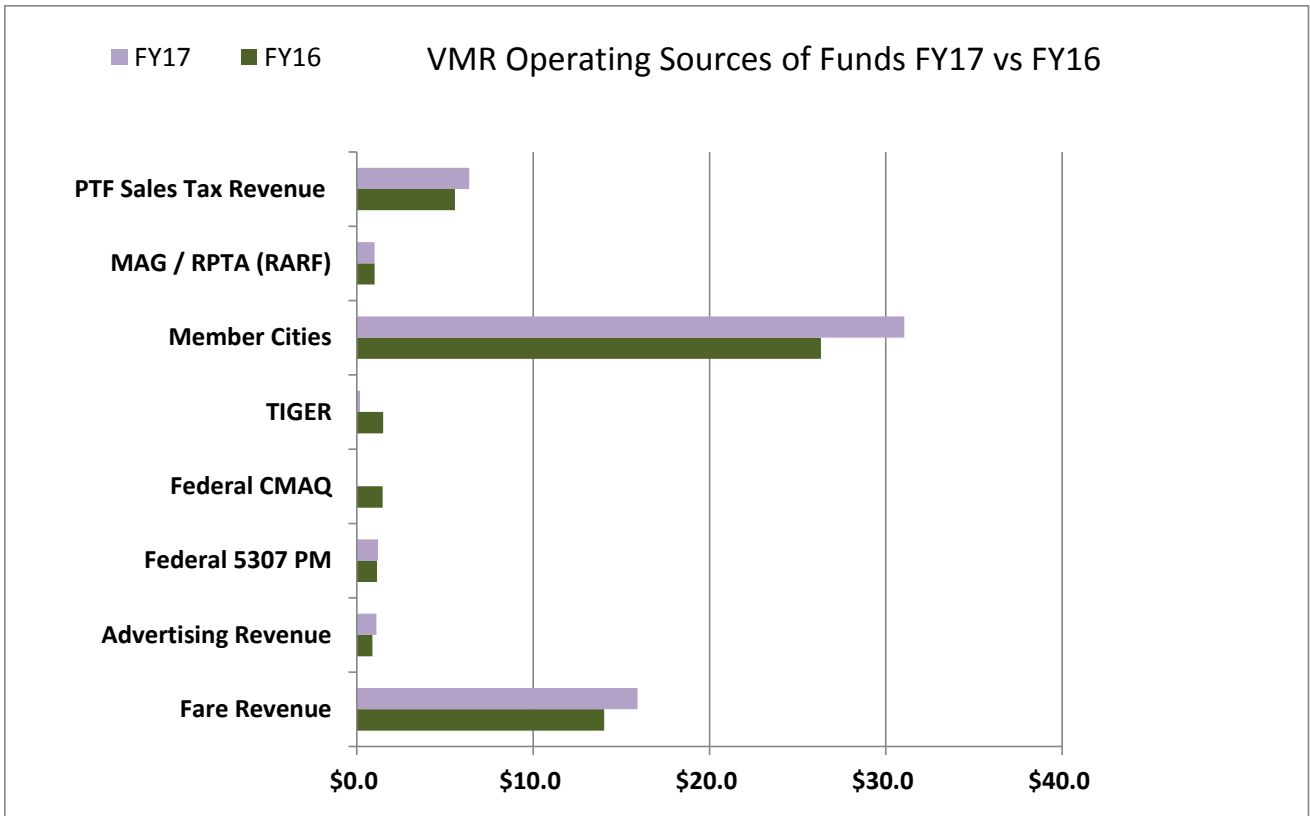
Primary sources of funds are \$56.9M as detailed below:

- Public Transportation Fund (PTF) sales tax revenue is \$6.4M. PTF funding requirements for project development activities are up by \$0.9M.
- Member city funding of \$31.1M is up from \$26.3M due to operating 12 months of the 26-mile line, additional \$1.3M future project development activities and \$0.2M increase for agency operations.
- Fare revenue is \$15.9M, which is up due to addition of six miles of service for a full 12 months.

Primary uses of funds are also \$56.9M as detailed below:

- Future project development is \$11.0M, down primarily due to completion of project development for the Tempe Streetcar and South Central capital projects.
- Revenue operations is \$44.9M, up due to operating 12 months of the 26-mile line, increased maintenance costs to maintain a state of good repair and increased fare inspection and security resources.





FY17 Capital Activities

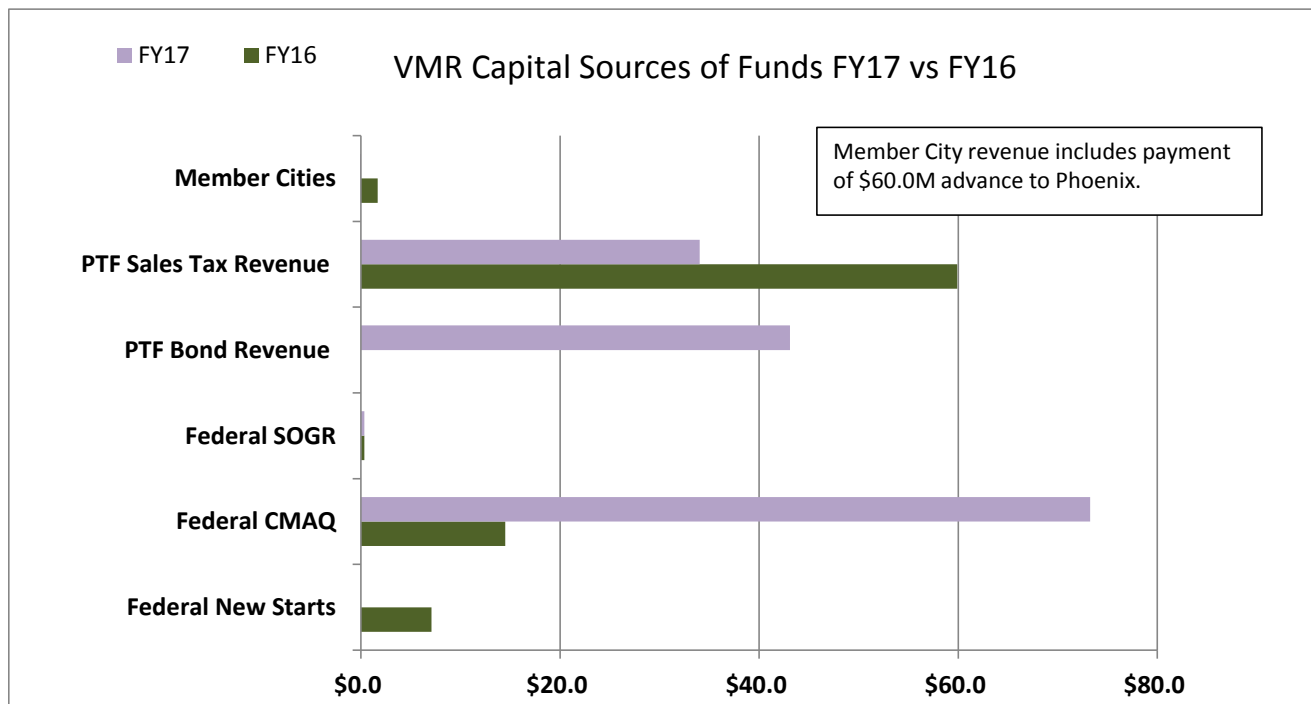
Total Capital Activities for FY17 are \$140.0 million, an increase of \$56.6M or 68% from FY16.

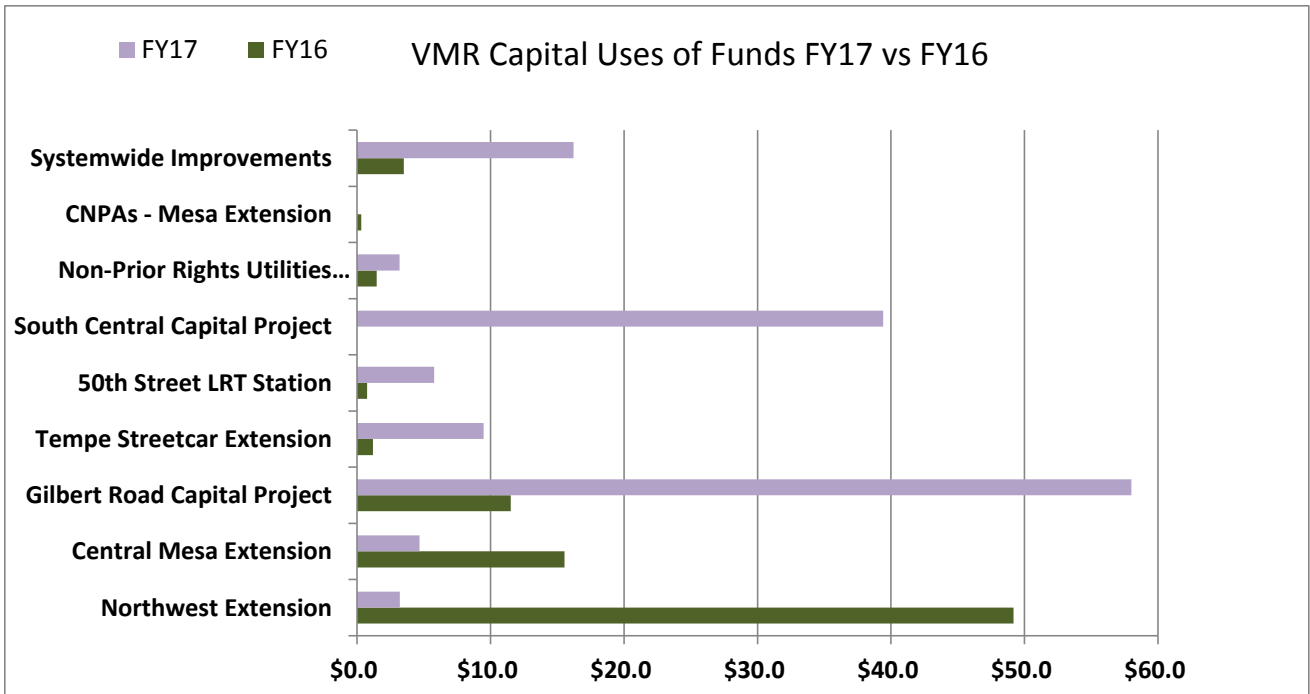
Primary sources of funds are \$140.0M as detailed below:

- PTF sales tax revenue is \$34.1M, down from \$59.9M last year due to completion of Central Mesa and Northwest Phoenix light rail extensions.
- PTF bond revenue is \$43.1M with series 2017 bond issue to fund upcoming rail projects.
- Federal CMAQ is \$73.2M, up from \$14.5M primarily for Gilbert Road Extension, Tempe Streetcar and LRV acquisition.

Primary uses of funds are \$140.0M as detailed below:

- Systemwide Improvements \$16.3M
- Non- Prior Rights Utilities \$3.2M
- South Central Extension \$39.4M
- 50th Street Station \$5.8M
- Tempe Streetcar \$9.5M
- Gilbert Road Extension \$57.9M
- Central Mesa Extension \$4.7M
- Northwest Extension \$3.2M





FY17 Baseline Service and Capital Plan Assumptions

Passenger Services

Rail Operations Service Frequency Plan

- Weekday trains will run with two to three cars at 12-minute intervals during peak hours and 15 to 20-minute intervals off peak.
- Weekends do not require peak service trains and will operate with one or two cars at 15 to 20-minute headways.

Ridership and Fare Revenue

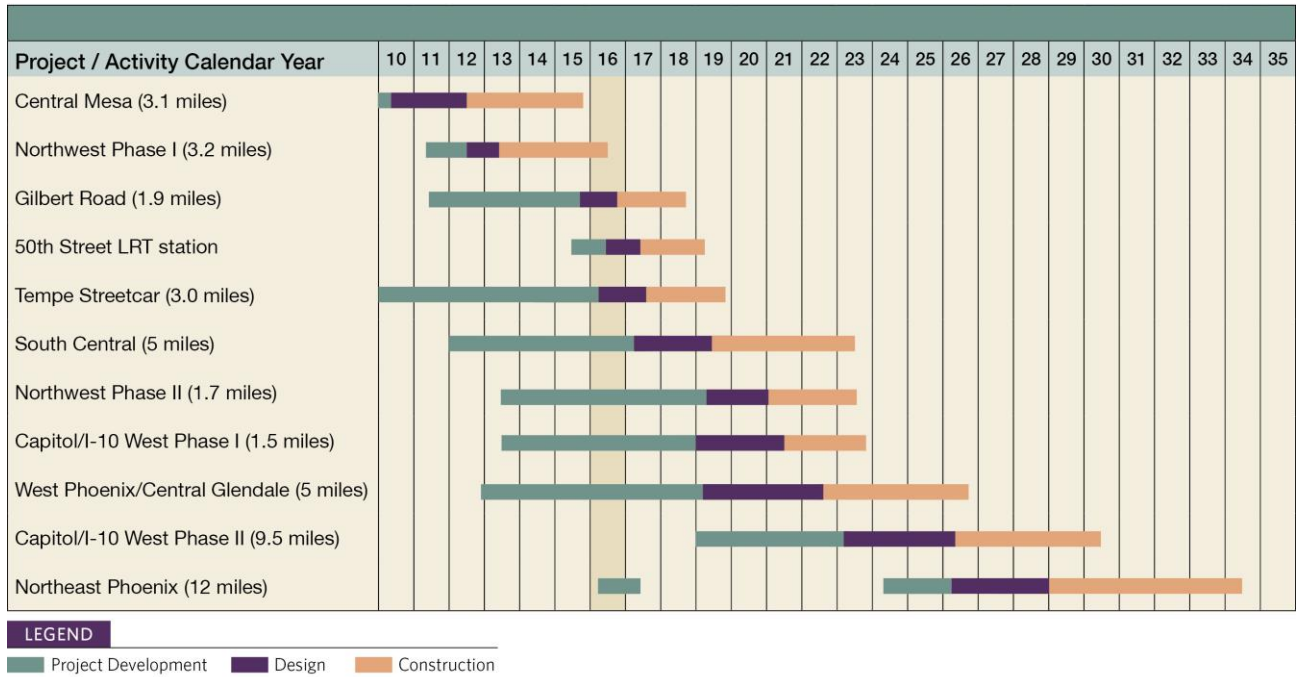
- Total ridership is forecasted at 17.3M passengers for FY17 with fare revenues generating \$15.9M
- The estimate includes an increase of an estimated 2.7M rides due to the Central Mesa and Northwest Extensions, which are commencing revenue service in FY16.
- Over the course of the FY17, average weekday boardings are forecasted at 52,000 while Saturday and Sunday average ridership are forecasted at 43,000 and 30,000 per day respectively.

Project Development

High-Capacity Transit Projects

- The Regional Transportation Plan (RTP), adopted by the Maricopa Association of Governments (MAG) and financed under the one-half cent sales tax extension, identifies 66 miles of light rail/high-capacity transit corridors to be implemented by 2034.
- The 1.9-mile Gilbert Road Extension, to serve east Mesa, is in final design.
- The 3-mile Tempe Streetcar project progresses into final design.
- City of Phoenix voters approved Proposition 104 (Transportation 2050), a 35-year transportation plan that would expedite several miles of light rail/high-capacity transit and add additional corridors to the regional high-capacity transit system. Under the plan and timing as shown on table below, additional service areas are identified:
 - 5-mile South Central Extension
 - 1.7-mile NW Extension Phase II
 - 5-mile West Phoenix/Central Glendale transit corridor
 - 1.5-mile Capitol/I-10 West Extension (Phase I)
 - 9.5-mile Capitol/I-10 West Extension (Phase II)
 - 12-mile Northeast Phoenix transit corridor

The timing of the projects in the program is depicted on the following schedule shown below:



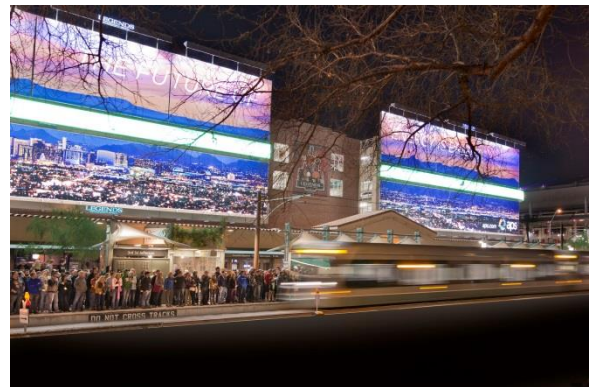
FY17 Goals and Initiatives

In January 2015, the Valley Metro RPTA and Valley Metro Rail Boards adopted the Valley Metro Strategic Plan for FY16 through FY20. The Strategic Plan provides clear definition of the purpose of the organization and establishes realistic goals and objectives for a five-year period. This plan ensures the most effective use of the organization’s resources by focusing those resources on key priorities. Below are the five, overarching goals identified in the Strategic Plan:

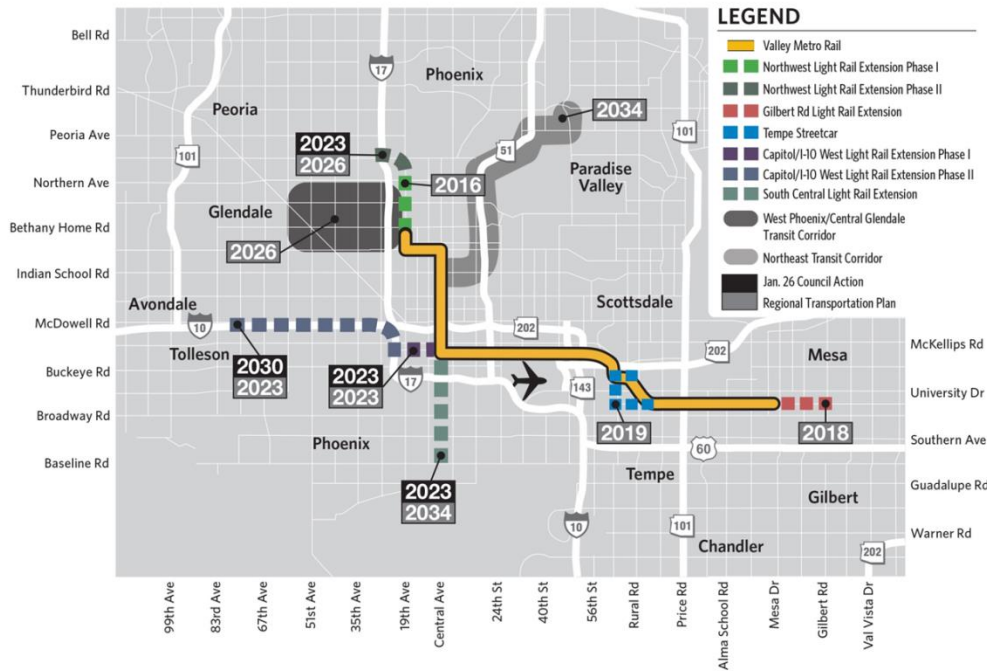
1. Increase customer focus
2. Advance performance based operation
3. Grow transit ridership
4. Focus on economic development, regional competitiveness and financial resources
5. Advance the value of transit

With the initiation of the FY17 budget process, staff has developed a number of initiatives that align with the Strategic Plan and will be incorporated into the FY17 budget, as summarized below.

1. Increase Customer Focus:	FY17 Initiatives	Valley Metro FY17 Investment \$ Thousands	
		VMR Investment	Total Investment
Improve Customer Satisfaction Integration of greater, more effective technology, improving passenger information systems with real time data, such as the website, facility signage and a Ridekick mobile application, and implementation of an enhanced fare media solution, including smart cards and mobile ticketing.	Develop smart card fare program/mobile ticketing	\$ 430.0	\$ 860.0
	Renovate website & mobile site	\$ 100.0	\$ 300.0
Evaluate and enhance passenger safety and security.	Increasing rail fare inspection and security resources	\$ 425.0	\$ 425.0



2. Advance Performance Based Operation:	FY17 Initiatives	Valley Metro FY17 Investment \$ Thousands	
		VMR Investment	Total Investment
Operate an effective, reliable, high performing transit system.	Develop an asset management plan for Valley Metro in conjunction with member agencies	\$ 75.0	\$ 100.0
Enhance Valley Metro's role in sustainability and the environment.	Implement the Sustainability Action Plan with focus of updating of design standards and urban design guidelines.	\$ 229.0	\$ 229.0
Deliver projects and services on-time/on-budget. Advance projects and services in the current regional transportation plan and Transit Life Cycle program.	Expediting S Central Corridor: \$2,109,000 Expediting Northwest Phase II: \$907,000 Advancing Northeast Corridor feasibility study: \$291,000	\$ 3,307.0	\$ 3,307.0
Maintain a culture to recruit and retain a qualified and diverse workforce.	Develop a program to recruit and retain a qualified and diverse workforce. Consultant engagement to for comprehensive training assessment and new employee orientation programs	\$ 20.0	\$ 40.0
Maintain strong fiscal controls to support Valley Metro's long-term sustainability.	Establishing Internal Audit Department with dual reporting responsibility to the Board of Directors and VM Executive Office	\$ 94.5	\$ 189.0

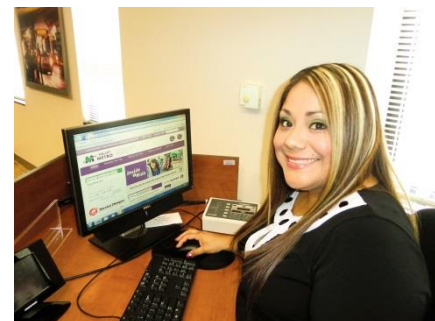
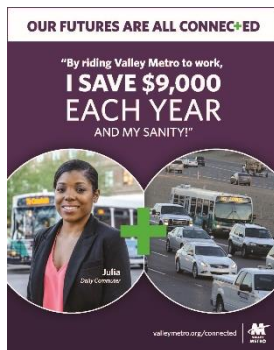


TRANSPORTATION 2050

With the recent passage of Transportation 2050 in the City of Phoenix, rail service to North, South and West Phoenix neighborhoods are being moved forward. Planned completion dates are shown.

FY17 Goals and Initiatives

3. Grow Transit Ridership:	FY17 Initiatives	Valley Metro FY17 Investment \$ Thousands	
		VMR Investment	Total Investment
Improve connectivity of transit services for greater effectiveness.	Analyze the region's transit system to optimize connectivity between transit services, including new LRT extensions - Fiesta Downtown Chandler Study: \$250,000 - West Glendale Feasibility Study: \$657,000	\$ 907.0	\$ 907.0
Communicate availability, attractiveness and safety of transit service	Conduct discretionary ridership campaigns to continue to attract riders	\$ 105.0	\$ 210.0
4. Focus on Economic Development, Regional Competitiveness and Financial Resources:	FY17 Initiatives	VMR Investment	Total Investment
Work with local communities to leverage transit oriented development (TOD) to increase investment in transit	Research and monitor and report regional trends regarding TOD implementation and successes - Support to TOD working group and PNR utilization study: \$100,000	\$ 100.0	\$ 100.0
5. Advance the Value of Transit:	FY17 Initiatives	VMR Investment	Total Investment
Develop and implement a communications plan to inform and educate the public on the value of transit	Continue media campaign to raise greater awareness of the value of transit	\$ 63.0	\$ 126.0



Agency Staff Overview

Valley Metro RPTA and Valley Metro Rail budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. For FY17, there are 310 employees budgeted in the integrated agency; 131 FTE's are budgeted to RPTA activities; 179 to VMR activities. Staffing levels are reviewed on an annual basis with zero-base analysis of level of effort requirements to fulfill work requirements in the five-year period commencing with the beginning of the new fiscal year. Salary and fringe benefit compensation levels are measured against comparable regional agencies, member cities and peer transit agencies located in the western U.S.

FY17 Compensation and Fringe Benefit Assumptions

Total compensation budget is based on a 2.5% increase. For staff salary changes, merit increases are based on employee performance. Division level control is in place to contain total salary and fringe costs within budget.

Agency health care costs will increase. Program design adjustments are in place to hold total agency fringe benefit cost increases to within 3% of FY16 levels.

Staffing cost analysis

	FY 17	FY 16	change	pct change
\$ million				
Salaries	19.6	18.8	0.8	4%
Fringe Benefits	7.6	7.5	0.1	2%
Total Salary and Fringe Benefits	27.2	26.3	0.9	3%

Analysis of changes

	Salary	Fringe	Total	
Base Compensation FY16	18.8	7.5	26.3	
Base increase	0.5	-	0.5	
Position Changes	0.3	0.1	0.4	
New Base Compensation FY17	19.6	7.6	27.2	
Change FY17 Adopted Budget vs. FY16 Adopted Budget			0.9	\$ million

Five new agency positions are planned to improve agency internal controls and strengthen fixed route bus and Accessible transit contractor performance, as noted below.

Title	Division	Scope of Work
Manager, Internal Audit	Chief Executive Office	Agency Internal Controls with primary reporting to Board
Internal Audit Specialist	Chief Executive Office	Internal Control testing and compliance
Program Representative	Planning & Accessible Transit	Support East Valley, West Valley, and regional paratransit
Scheduler	Operations and Maintenance - RPTA	Fixed Route Bus schedule analysis and management
Program Coordinator	Operations and Maintenance - RPTA	Fixed Route Bus contractor performance management

FY17 Adopted Budget Financial Summary

In the table below, detailed revenues and expenses are shown with comparisons to the prior year's amended budget. The "Note" column (on the far right side) indicates reference to explanations which are provided in the following table.

<u>Uses of Funds</u>	<u>(\$,000)</u>			Budget Analysis Note #
	FY16 Amended	FY17 Adopted	Change	
Operating Activities:				
Revenue Operations	39,415	44,890	5,475	1
Future Project Development	11,541	10,967	(574)	2
Agency Operating Budget	909	1,081	172	
	<u>51,864</u>	<u>56,938</u>	<u>5,074</u>	
Capital Projects:				
Northwest Extension	49,178	3,203	(45,975)	3
Central Mesa Extension	15,549	4,673	(10,876)	4
Gilbert Road Extension	11,516	57,984	46,468	5
Tempe Streetcar Extension	1,198	9,476	8,278	6
50th Street LRT Station	747	5,780	5,033	7
South Central Extension	-	39,417	39,417	8
Non-Prior Rights Utilities Relocations	1,467	3,185	1,718	9
CNPAs - Mesa Extension	321	-	(321)	10
Systemwide Improvements	3,497	16,305	12,808	11
Subtotal Capital before Debt Service	<u>83,472</u>	<u>140,023</u>	<u>56,551</u>	
Total Uses of Funds	<u>135,336</u>	<u>196,961</u>	<u>61,625</u>	

Note	Budget Analysis - Uses of Funds
1	FY17 rail operating costs increase by 14% over FY16 levels. In FY17, 26 miles of service will be operated for the full year. Maintenance costs rise with scheduled preventive maintenance activities to maintain the system in a state of good repair, and increased fare inspection and security resources are being deployed.
2	Future Project Development costs are down by \$0.6M due to decrease in planning activities related to future corridors and system planning; primarily due to completion of project development for the Tempe Streetcar capital project.
3	Northwest Extension Phase I base project costs are down by \$46.0M due to completion of the construction portion of the project and commencement of passenger operations in March of 2016.
4	Central Mesa Extension base project costs are down by \$10.9M. Remaining activity in FY17 is related to the train signal control system upgrade.
5	Gilbert Road LRT Extension project construction to commence in FY17, along with the purchase of Light Rail Vehicles. Annual expenditures forecasted at \$58.0M.
6	Tempe Streetcar design and pre-construction activities commence. Annual expenditures forecasted at \$9.5M.

Note	Budget Analysis - Uses of Funds
7	50th Street LRT Station preliminary design and ROW acquisition work continues with construction to commence in FY17.
8	South Central Capital Project pre-construction activities to begin in FY17. Annual design and project management expenditures forecasted at \$39.4M.
9	Non-prior rights utilities relocations up by \$1.7M due to increased activity for construction projects. FY17 amounts include Tempe Streetcar (\$0.5M), 50th Street LRT Station (\$0.6M), and Gilbert Road Extension (\$2.0M).
10	No FY17 City of Mesa funding for Central Mesa Extension Concurrent Non-Project Activities (CNPA).
11	Systemwide Improvements include the purchase of 8 light rail vehicles for future extensions (\$6.0M), LRV overhauls (\$4.7M), improvements for station lighting and railing, security camera component upgrades, ticket vending machine upgrades and other activities (\$5.6M).

Sources of Funds

	(\$,000)			Budget Analysis
	FY16 Amended	FY17 Adopted	Change	Note #
Operating Activities:				
Fare Revenue	14,019	15,909	1,890	12
Advertising Revenue	876	1,100	224	
Federal 5307 PM	1,143	1,197	54	
Federal CMAQ	1,451	-	(1,451)	13
TIGER	1,488	175	(1,313)	14
Member Cities	26,324	31,139	4,815	15
MAG / RPTA (RARF)	1,000	1,000	-	
PTF Sales Tax Revenue	5,564	6,419	855	16
	51,864	56,938	5,074	
Capital Projects:				
FTA - Section 5309	7,084	-	(7,084)	17
Federal CMAQ	14,491	73,232	58,741	18
Federal 5337 SOGR	341	341	-	
Member Cities	1,665	49,237	47,572	19
Less Repayment Phoenix NW Advance	-	(60,000)	(60,000)	20
PTF Bond Revenue	-	43,099	43,099	21
PTF Sales Tax Revenue	59,891	34,113	(25,778)	22
	83,472	140,023	56,551	
Total Sources of Funds	135,336	196,961	61,625	

Note	Budget Analysis - Sources of Funds
12	Fare revenue increases from \$14.0M to \$15.9M; assumes 17.3 million rides with an average fare forecasted to be \$0.92 per ride in FY17. Ridership grows with addition of 6 miles of service for full 12 months. Average fare increase due to fare pricing adjustment anticipated in late 2017, pending Board approval.
13	With Tempe Streetcar project moving into capital phase, no Federal CMAQ project development funds programmed for FY17.
14	Project Development Federal TIGER funds down by \$1.3M due to South Central entering into pre-construction activity in FY17, which will be funded by City of Phoenix within the capital project budget.
15	Member City contributions for Operations are up from \$26.3M to \$31.1M in FY17 due to operating 12 months of the base service along with the Central Mesa and Northwest Extensions (\$3.3M net of revenues), an additional \$1.3M of future project development activities, primarily related to South Central Corridor project in Phoenix, and \$0.2M increase for agency operations.
16	PTF Sales Tax revenue funding requirements for project development are up by \$0.9M, primarily related to Northwest Phase II, West Phoenix-Central Glendale and Phoenix I-10 Capitol projects.
17	No Federal New Starts funds programmed for FY17. Activity in FY16 was to complete the Central Mesa Extension project. New Starts funds for the Tempe Streetcar are anticipated in FY18.
18	Federal CMAQ increasing by \$58.7M due to increasing funding requirements for construction activity. FY17 programmed activity includes Central Mesa Extension SCADA (\$3.7M), Gilbert Road (\$54.7M), Tempe Streetcar (\$7.6M), Systemwide Improvements (\$4.9M), and Non Prior Rights Utilities (\$2.3M)
19	Member City contributions for Capital Projects total \$49.2M for FY17. Project amounts for FY17 include South Central funding by Phoenix (\$39.4M), 50th Street Station funding by Phoenix (\$5.8M), Gilbert Road Extension funding by Mesa (\$3.3M), and Non Prior Rights Utilities (\$0.7M).
20	In June of 2017, the City of Phoenix will be repaid \$60.0M in advances the City made in FY 13 and FY 14 to accelerate completion of the NW Extension. Funding is from Public Transportation Funds.
21	It is anticipated that RPTA will issue \$60.0M series 2017 bonds to support rail capital projects in the spring of 2017. Consumption of bond proceeds is estimated at \$43.1M in FY17.
22	PTF Sales Tax funding will be reduced from \$59.9M to \$34.1M primarily due to construction activity winding down for Northwest and Central Mesa Extensions, offset by increased funding requirements for Tempe Streetcar and Systemwide Improvements.

FY17 – FY21 ADOPTED FIVE-YEAR OPERATING FORECAST AND CAPITAL PROGRAM

The Valley Metro Rail Five-Year Operating and Capital Program identifies anticipated operating costs, capital projects and costs and the associated funding sources. The FY17 – FY21 Five-Year Operating and Capital Program is submitted to the Board of Directors along with the FY17 Operating and Capital Budget.

Five-Year Operating Assumptions

- 1.9-mile Gilbert Road Extension opens revenue service in November 2018
- 50th Street Station opens revenue service in May 2019
- 3-mile Tempe Streetcar opens revenue service in December 2019

The Operations & Maintenance (O&M) costs are projected based on current cost history with a general inflation escalation factor of 3.0%. Anticipated structural changes to staffing, contract and materials expenses are forecasted to meet customer demand and maintain the system in a state of good repair.

System-wide and specific light rail corridor project development activities are included in the operating budget. Once a project alignment has been approved by local and regional policy makers and federal environmental approvals are secured the project costs are recorded in the capital program.

Agency Operating costs include those costs not directly allocable to capital projects or to passenger operations. Included are costs of annual audit, federal and state legislative representation and memberships to transportation related organizations.

Fares

Effective March 2013, the current Regional Fare Policy is as follows:

Local bus / LINK / Light rail			Express / RAPID bus		
Full Fare			Reduced Fare* Proof of eligibility required.		
1-Ride	Light rail only	\$2.00	1-Ride	Light rail only	\$1.00
All-day		\$4.00	All-day		\$2.00
7-day		\$20.00	7-day		\$10.00
15-day		\$33.00	15-day		\$16.50
31-day		\$64.00	31-day		\$32.00
			All-day \$6.50 31-day \$104.00		
Report vending malfunctions to (602) 253-5000. Please note the date, time, and machine number listed. Machine ID#					

*Reduced Fare – Youth (6 – 18), seniors (age 65 and over) and people with disabilities

In accordance with the regional fare policy to achieve a 25% fare recovery ratio, fare discount structure changes are projected for FY17 to increase average fare by 5%. Within the 5 year plan, a base fare increase is anticipated in FY20.

FY17 – FY21 Operating Uses and Sources of Funds

Operating costs and funding planned for the FY17 – FY21 planning horizon are summarized as follows (in year of expenditure (\$, 000))

	2017	2018	2019	2020	2021	TOTAL
USES OF FUNDS						
Operations and Maintenance	\$ 44,890	\$ 46,484	\$ 49,390	\$ 53,940	\$ 56,996	\$ 251,700
Project Development Planning Support	10,967	11,532	7,087	6,953	7,474	44,013
Agency Operating Budget	1,081	1,115	1,148	1,183	1,219	5,746
Total Uses	56,938	59,131	57,625	62,076	65,689	301,459
SOURCES OF FUNDS						
LRT Fares:						
Phoenix	9,828	11,028	11,264	11,945	11,847	55,911
Tempe	3,751	3,677	3,756	5,214	6,139	22,537
Mesa	2,331	2,551	3,463	4,161	4,126	16,631
Subtotal Fares	15,909	17,257	18,482	21,320	22,112	95,079
Other Revenues:						
Phoenix	20,318	17,599	17,815	17,300	17,786	90,818
Tempe	5,699	6,015	6,092	7,747	9,333	34,886
Mesa	4,175	4,206	5,563	6,111	6,271	26,326
Glendale	676	387	32	30	30	1,155
Chandler	271	31	32	30	30	393
Advertising	1,100	1,133	1,167	1,202	1,238	5,841
Subtotal Local Revenues	32,239	29,370	30,700	32,419	34,691	159,420
Capital Planning Funds - PTF	6,417	8,536	6,087	5,353	5,274	31,667
MAG	500	500	500	500	500	2,500
RPTA	500	500	500	500	500	2,500
TIGER	175	-	-	-	-	175
Federal 5307 PM	1,197	1,329	1,356	1,383	1,412	6,679
CMAQ	-	1,640	-	600	1,200	3,440
Total Sources	\$ 56,938	\$ 59,131	\$ 57,625	\$ 62,076	\$ 65,689	\$ 301,459



FY17 – FY21 Capital Program

Valley Metro Rail currently has a number of transit projects in various stages of planning, design or construction. The sources and overall uses of funds associated with these projects and activities are projected to be \$1.2B through the five-year planning horizon. These uses and sources of funds are summarized as follows:

	2017	2018	2019	2020	2021	FY 2017-21
USES OF FUNDS						
Northwest Extension Phase 1	\$ 3,203	\$ -	\$ -	\$ -	\$ -	\$ 3,203
Central Mesa	4,673	3,926	-	-	-	8,599
Gilbert Rd	57,984	56,653	14,153	1,309	-	130,099
Tempe Streetcar	9,476	48,872	73,296	30,035	-	161,679
South Central	39,417	124,687	98,336	89,080	68,309	419,829
50th Street Station	5,780	8,634	3,275	-	-	17,689
Northwest Extension Phase 2	-	3,055	29,032	66,415	69,180	167,682
Capitol I-10 West	-	5,089	5,089	11,557	42,580	64,315
West Phoenix Central Glendale	-	-	-	-	102,186	102,186
Subtotal HCT Corridors	120,533	250,916	223,181	198,396	282,255	1,075,281
Non-Prior Rights Utilities Relocation	3,185	8,174	6,274	2,744	3,339	23,716
Systemwide Improvements	16,305	22,438	22,000	2,126	1,480	64,349
Total Capital Costs	<u>\$ 140,023</u>	<u>\$ 281,528</u>	<u>\$ 251,455</u>	<u>\$ 203,266</u>	<u>\$ 287,074</u>	<u>\$ 1,163,346</u>
SOURCES OF FUNDS						
Phoenix	\$ 45,818	\$ 138,456	\$ 128,901	\$ 107,327	\$ 107,201	\$ 527,703
Less Repayment Phoenix NW Advance	(60,000)	-	-	-	-	(60,000)
Tempe	-	6,500	6,500	-	-	13,000
Mesa	3,423	164	-	-	-	3,587
Glendale	-	-	-	-	14,722	14,722
Subtotal	(10,759)	145,120	135,401	107,327	121,923	499,012
PTF Sales Tax Revenue (Allocation 43.24%)	34,061	27,889	33,897	38,130	41,971	175,949
PTF (Reserve) / Bond Borrowing	43,086	(1,370)	5,978	(9,481)	14,547	52,759
PTF Regional Revenue - Demand	77,147	26,519	39,875	28,649	56,518	228,708
TPAN	-	55,430	14,253	1,309	-	70,992
Federal Revenues:						
FTA	341	20,262	41,907	56,736	64,520	183,763
CMAQ	73,294	34,197	20,019	9,246	44,113	180,869
Subtotal Federal	73,635	54,459	61,926	65,982	108,633	364,632
Total Revenues	<u>\$ 140,023</u>	<u>\$ 281,528</u>	<u>\$ 251,455</u>	<u>\$ 203,266</u>	<u>\$ 287,074</u>	<u>\$ 1,163,346</u>

Funding is derived from three primary sources: Regional sales taxes (PTF), Transportation Project Advance Notes (TPAN) and federal grants. The TPAN notes are issued by the City of Mesa, with a combination of federal and local revenues. (Note: Negative sources of funds reflect reimbursements to City of Phoenix for the Northwest Extension advance (source of funding is PTF.)