MERIT Program Review

Operating & Capital Assistance

January 20, 2026

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VIRGINIA DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

What We Heard from TSDAC

- Provide goals up front, explaining policy goals separately from formula goals
- Identify problems being addressed and rationale for the proposed changes
- Remind that DRPT is working to gather additional data, but that it will not be available for this review
- Present capital changes and administrative recommendations up front
- Provide a full recap of the review, changes that have been proposed, and data that supports the changes.
  - Include all the iterations of recommendations and how they changed over time with explanation of changes
  - Include all scenarios (at least as an appendix)
- Include questions and issues received from TSDAC and public comments
- Make it more of a workshop - structured formal presentation but also including free form discussion-interaction
- At the end of the meeting discuss the goal of the next meeting to address feedback received
- Review case studies impacted by the current formula and show how the proposed formula would work toward the goal of rewarding efficiency and good performance.
- Provide visualization of how the trend adjustment is negatively impacting agencies in the state.

Agenda

- MERIT Program Review Policy Goals
- TSDAC Resolution, CTB Recommendation and Public Comment
- FY 2028 Application Timeline
- MERIT Capital Assistance Proposed Program Changes
- MERIT Operating Assistance
  - Proposed Administrative Definition Changes
  - Current Formula
  - Challenges and Proposed Solutions
  - Limitations of the Current Review
  - Conceptual Clarifications
  - Evaluation Process and Scenarios Tested
    - Scenarios and Other Formula Changes Presented in 2025
  - Proposed Formula Methodology
    - Estimated Allocations under Proposed Formula
  - Alternate Allocation Approaches for Future Consideration
- Discussion
- Next Steps

MERIT: Making Efficient and Responsible Investments in Transit

Program Review Policy Goals

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Commonwealth Policy Considerations for MERIT Capital and Operating

Policy Considerations:

- Stronger, more meaningful emphasis on performance-based metrics
- Standardized verification of effective agency asset utilization and need
- Additional incentives to promote operational efficiency, route optimization-innovation, and good grants management practices
- Develop metrics to evaluate the return on investment
- Incorporation of nation-wide best practices where appropriate

Policy Goals:

1. Strive to remain best in class in our review-scoring-award of grant funds.
2. Deliver the most value and best outcomes for our customers as efficiently as possible.

CTB-TSDAC-DRPT Roles and Responsibilities

Roles and responsibilities of CTB, TSDAC, and DRPT must be consistent with § 33.2-214.4

CTB

- Sets priorities and adopts policies for implementation of the MERIT Operating formula and MERIT Capital prioritization process consistent with state code

TSDAC

- Works with DRPT and stakeholders to develop formula concepts and makes recommendations for MERIT Operating Assistance policy improvement

DRPT

- Develops technical guidance and definitions for implementation of the MERIT Operating formula

TSDAC Resolution
CTB Recommendation and Public Comment

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TSDAC Resolution and Context

Resolution:

"The Transit Service Delivery Advisory Committee, in order to provide a full evaluation of proposed adjustments in the MERIT operating and capital programs, requests that the Commonwealth Transportation Board delay consideration of any changes to the MERIT program until no later than June 30, 2026 so that TSDAC has the opportunity to review and comment on any proposed revisions."

Additionally, TSDAC:

- Commended DRPT leadership, staff and consultants on the analysis and outreach
- Desires to review and make recommendations on operating and capital program changes as a package

CTB Recommendation

In light of the TSDAC's resolution seeking a delay, and considering the 10 months of work invested by DRPT staff, consultants, and stakeholders, DRPT recommends that the CTB resolve to take future action on the MERIT operating formula and capital prioritization process changes, no later than the May 2026 CTB Action Meeting. This timeline requires DRPT to propose a formal recommendation for formula changes no later than the April 2026 CTB Workshop Meeting. This delay will allow additional time for evaluation while also ensuring the CTB is presented with an action item prior to the end of the fiscal year. DRPT's formal recommendation to the CTB should:

1. *include more outcome-focused criteria than the current formula and less input-focused criteria;*
2. *should be more directly performance-based;*
3. *should incentivize cost-efficiency and reward agencies that carry more riders per dollar; and*
4. *should provide a stable framework for future enhancements once PMT and mode-level data tools are improved.*

Summary of Public Comments

- **Support for Potential Operating-Capital Changes**
  - Bay Transit: Fits rural door-to-door service model
  - Four County Transit: Aligns with cost-control priorities
  - Virginia Municipal League: Appropriate, meet statutory requirements and overdue on the capital side
- **Requests for Clarification & Data**
  - Virginia Transit Association, Williamsburg Area Transit Authority & Loudoun County
- **Concerns About Process & Timing**
  - Virginia Municipal League, Coalition for Smarter Growth, DASH, Arlington County: Urged more time for review and stakeholder engagement.
  - Virginia Transit Association, Community Transportation Association of Virginia: Requested additional time and called for greater transparency regarding process and outcomes.
  - Fairfax County: Unclear policy goals; suggested more discussion.
- **Funding Impact**
  - Virginia Association of Counties: Concern about revenue losses without increased funding.
- **Strong Opposition**
  - OmniRide: Requested inclusion of operators from concept development, unclear-flawed goals.

MERIT Operating and Capital Assistance FY 2028 Application Timeline

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FY 2028 Application Timeline

- **October 1, 2026**
  - Open pre-app period for major construction projects
- **October – November 2026**
  - Conduct webinars and outreach to provide guidance on upcoming FY2028 application cycle
- **November – December 2026**
  - Workshop for rural/human service grantees for FY2028 cycle
- **December – February 2027**
  - Solicit operating applications with FY 2026 operations and performance data
- **February – March 2027**
  - Review, prioritize, and score applications
- **Mid-March 2027**
  - Draft Six-Year Improvement Program completed
- **Mid-April 2027**
  - Draft SYIP sent to CTB
- **April – May 2027**
  - SYIP Public Hearings
- **May – June 2027**
  - Draft SYIP undergoes review and necessary revision and presented to CTB
- **June 2027**
  - SYIP adoption by CTB for FY 2028

MERIT Capital Assistance Proposed Program Changes

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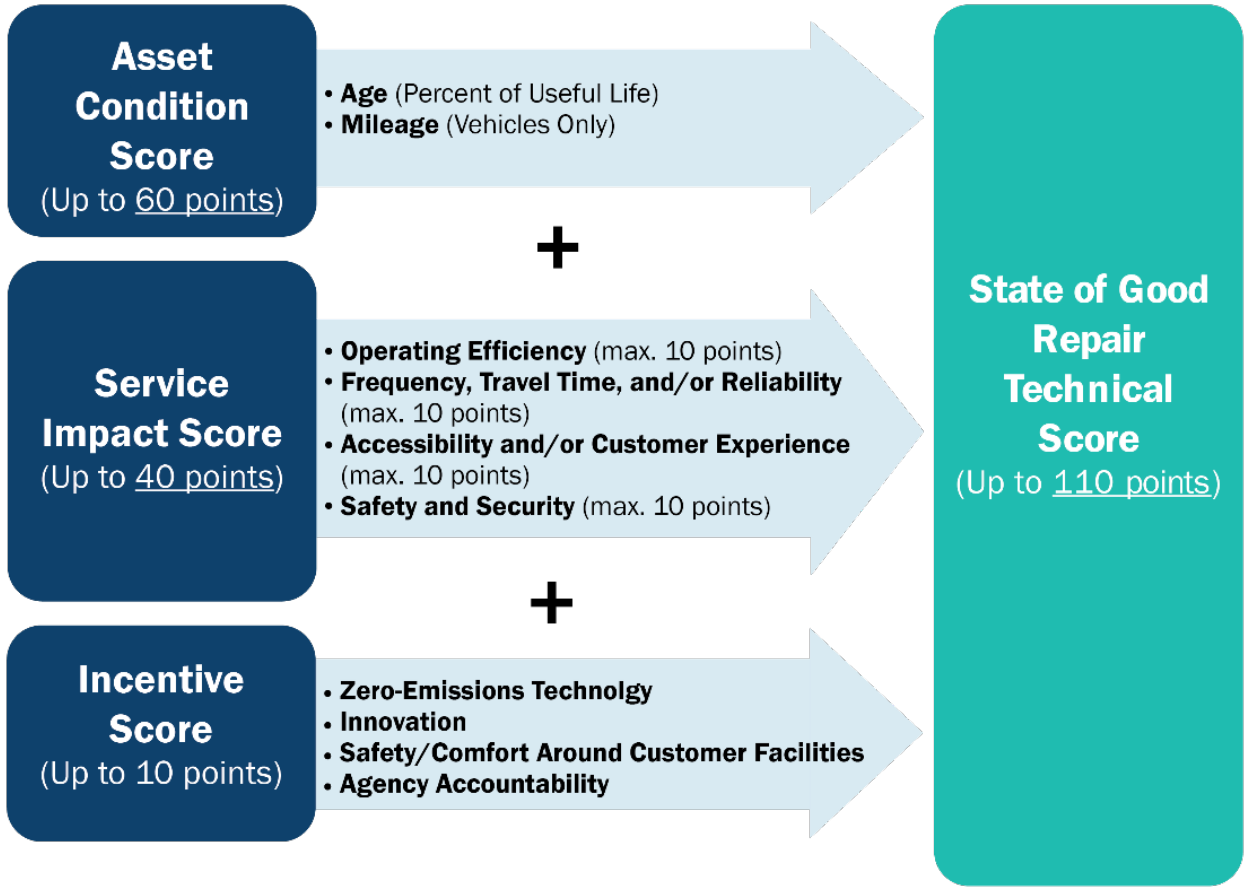
MERIT Capital Assistance Program Review

DRPT reviewed the existing framework and scoring methodology for MERIT Capital Assistance Projects, which classifies projects into three categories:

State of Good Repair	• Replace or rehab existing asset <u>and</u> project cost ≤ $3M	68% maximum state match
Minor Enhancement	• Add capacity or new assets <u>and</u> project cost ≤ $3M • Expansion vehicle purchase of ≤ 5 vehicles or 5% fleet (greater of) • All projects for engineering and design	68% maximum state match
Major Expansion	• Add, expand, or improve services or facilities <u>and</u> project cost > $3M • Expansion vehicle purchase of > 5 vehicles or 5% fleet (greater of)	50% maximum state match

MERIT Capital Assistance
State of Good Repair (SGR) Scoring



MERIT Capital Assistance
Minor Enhancement (MIN) Scoring

MERIT Capital Assistance Major Expansion (MAJ) Scoring

- Six factor areas are used to prioritize projects, as designated by state legislation and in line with SMART SCALE
- DRPT has designated quantifiable and objectives and measures to analyze each project's projected performance benefits relative to its cost to the state

Factor Area	Objective	Measure
Congestion Mitigation	Reduce delay, improve transportation system reliability, and encourage transit use	Change in peak-period transit ridership attributed to the project
Economic Development	Support existing economies and enhance opportunity for economic development	Project consistency with regional and local economic development plans and policies, and support for local development activity
Accessibility	Enhance worker and overall household access to jobs and other opportunities, and provide multiple and connected modal choices	Project improvement in accessibility to jobs
		Disadvantaged population (low-income, minority, or limited English proficiency) within walking distance of project
Safety	Address multimodal safety concerns and improve transit safety and security	Project contribution to improving safety and security, reducing risk of fatalities or injuries
Environmental Quality	Reduce emissions and energy consumption by providing modal choices, and minimize natural resources impacts	Reduction in emissions resulting from project
Land Use	Improve consistency of the connection between local comprehensive plans and land use policies with transit investments	Transit supportive land use served by the project

MERIT Capital Assistance Review - Key Findings

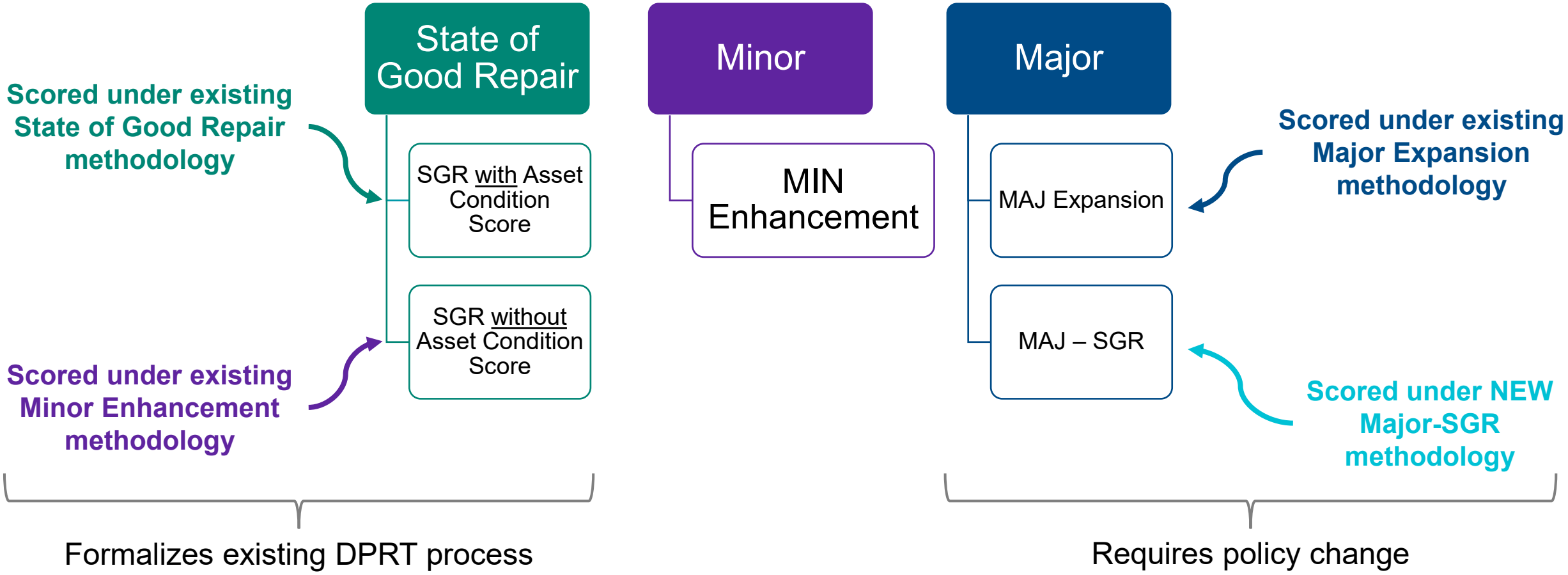
- In general, the scoring methodologies prioritize and fund capital projects in alignment with DRPT goals
- Some projects don’t fit neatly into existing categories-scoring methodologies
  - SGR projects without clear estimated service life are scored with MIN
  - Projects >$3M that replace or rehab an existing asset are scored under MAJ
- Vehicle expansion project scoring and match ratio is different for projects adding more than 5 vehicles or 5% fleet
- Some incentive scoring categories may not be achieving intended results

MERIT Capital Assistance Proposed Improvements

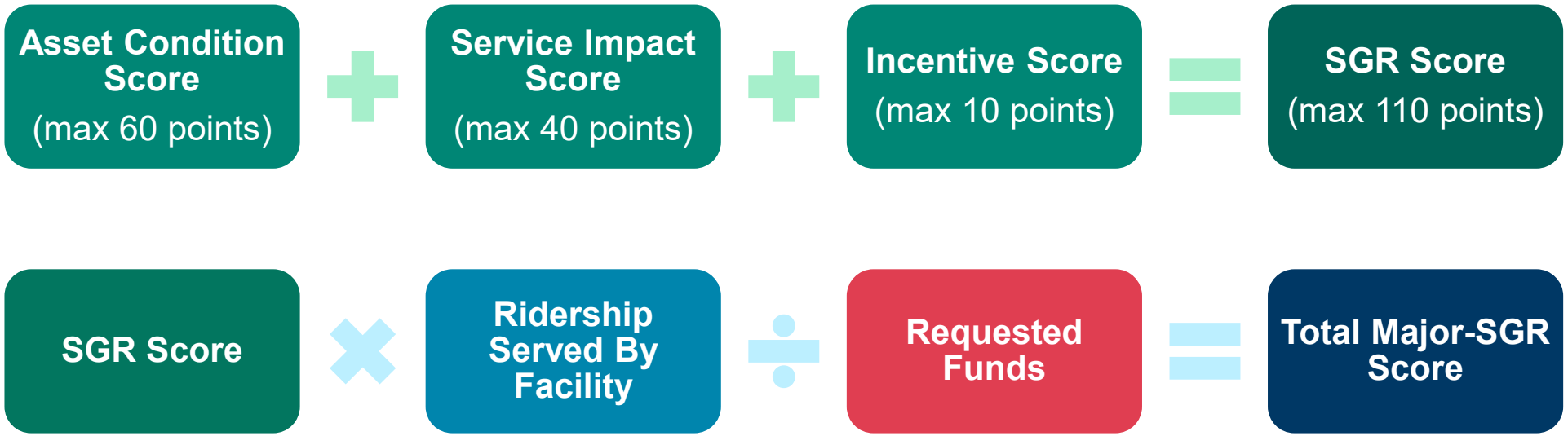
The review identified proposed improvements to the program methodology to better align with project types, simplify processes, and incentivize good grants management.

Proposed Improvements
Project Categorization and Scoring: 1. Add subcategories for State of Good Repair (SGR) projects (SGR with Asset Condition Score and SGR without Asset Condition Score) 2. Add subcategories for Major Expansion (MAJ) projects (MAJ Expansion and MAJ-SGR) 3. Develop new scoring methodology for MAJ-SGR projects
Project Definition: 1. Eliminate 5 vehicle or 5% of fleet threshold and score all vehicle expansion projects under the Minor Enhancement (MIN) project type
Incentive Points: 1. Eliminate underutilized incentive categories and categories where incentive points aren't achieving desired result 2. Add categories to incentivize agencies on good grants management

MERIT Capital Assistance Proposed New Subcategories



MERIT Capital Assistance
Proposed Major-SGR Scoring



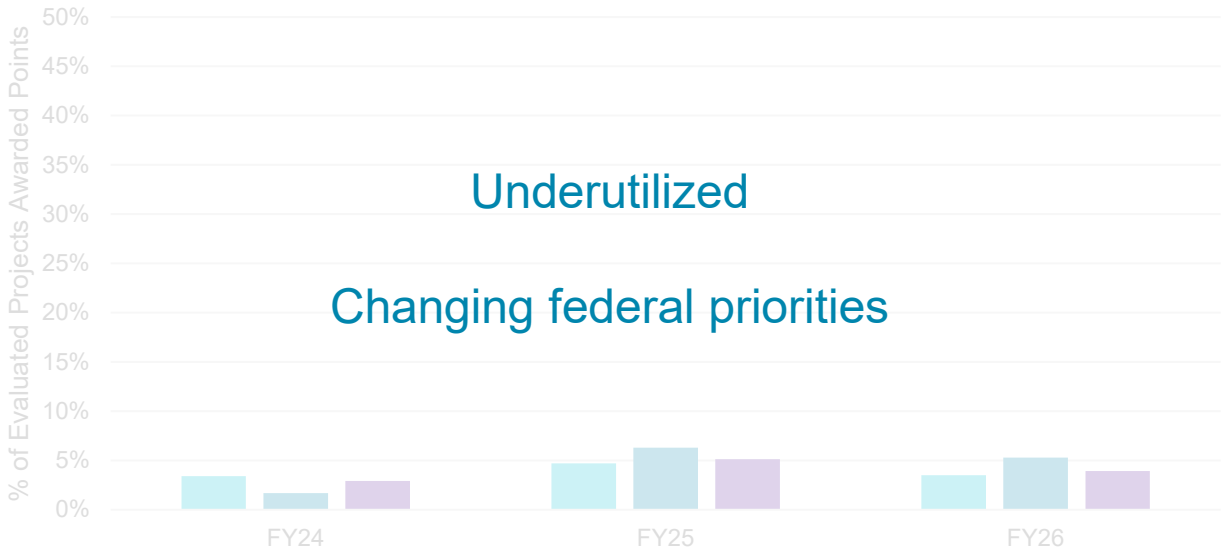
- Scored similar to State of Good Repair category
- Cost factored into score to incentivize cost efficient projects
- Ridership factored into score to normalize for size (and cost) of facility

MERIT Capital Assistance Current Incentive Scoring

Zero-Emissions Technology

Underutilized

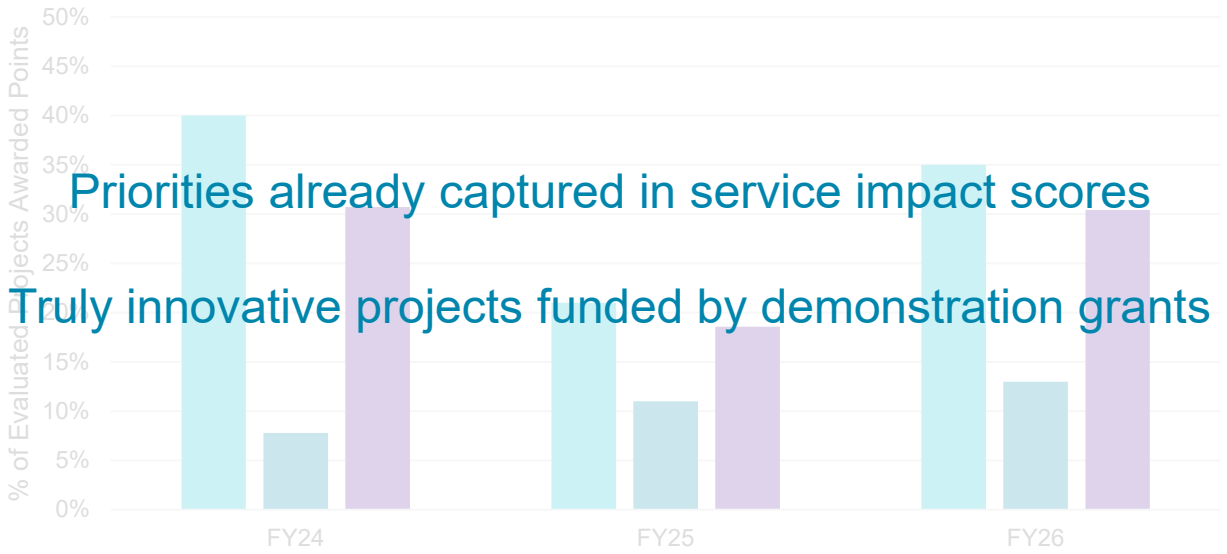
Changing federal priorities



Innovation

Priorities already captured in service impact scores

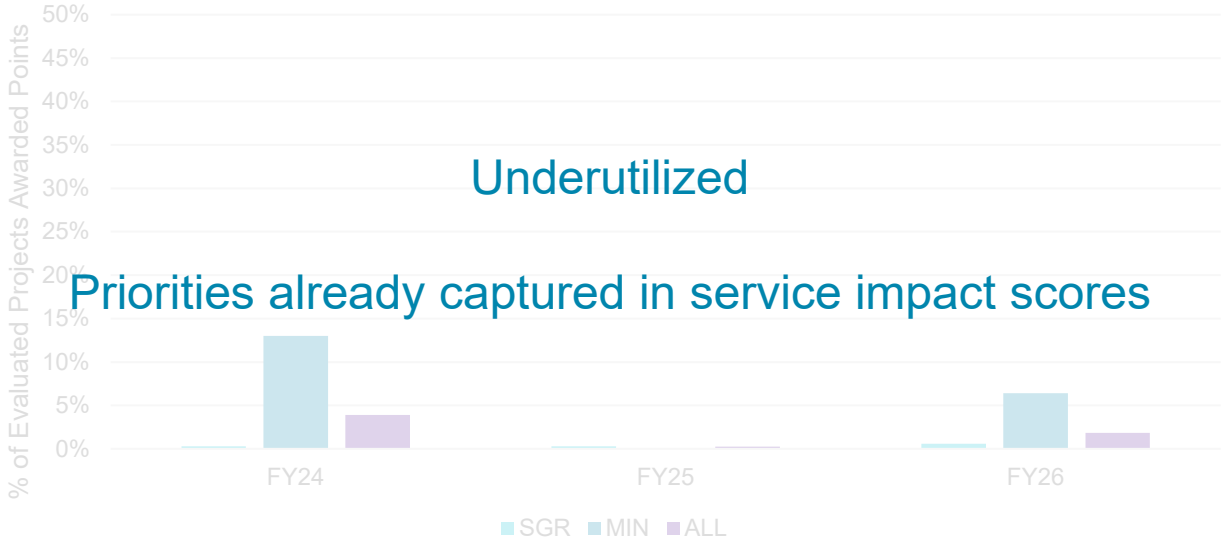
Truly innovative projects funded by demonstration grants



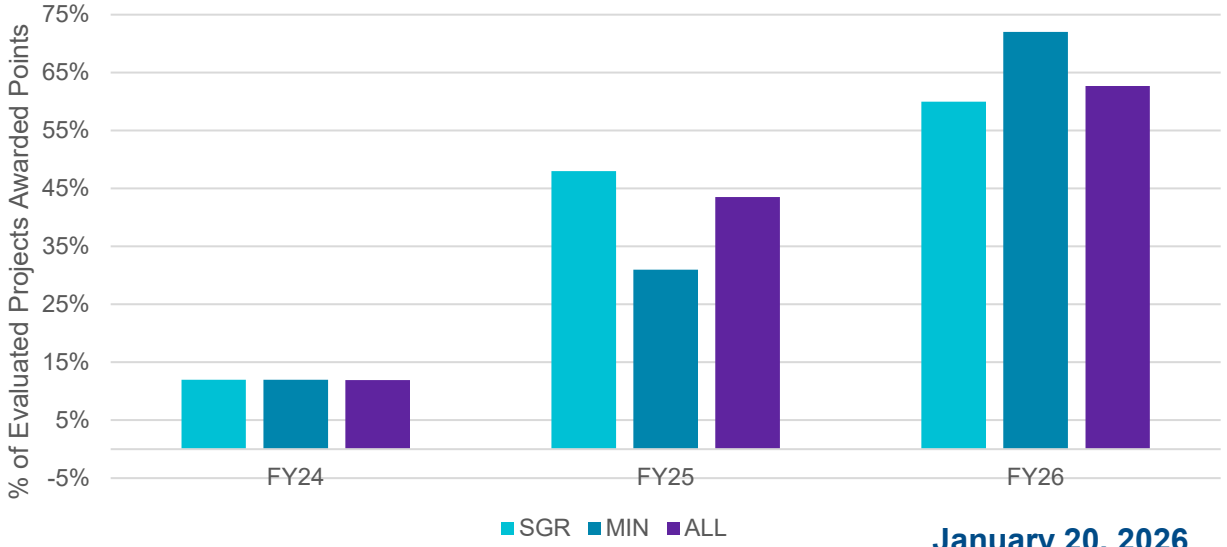
Safety and Comfort

Underutilized

Priorities already captured in service impact scores



Agency Accountability



MERIT Capital Assistance Proposed Incentive Scoring

- Continue to incentivize the 3 existing Agency Accountability criteria
- Add 2 new Good Grants Management incentive criteria
  - **Project Progress**: Award to agencies that have no projects >2 years old with no claims-invoices against them
    - Incentivizes agencies to show progress is being made on already funded projects
  - **Project Closeout**: Award to agencies that have no projects >90 days expired
    - Incentivizes agencies to closeout projects in a timely manner
- Award 2 points for each of the 5 criteria (up to 10 points total)

MERIT Operating Assistance

MERIT Operating Assistance Proposed Administrative Definition Changes

(advisory for TSDAC, no formal action required)

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MERIT Operating Assistance Performance Measure Methodology

- **This change impacts the following performance metrics:**
  - Passengers per Hour (Riders-Vehicle Revenue Hour)
  - Passengers per Mile (Riders-Vehicle Revenue Mile)
- **Current:** The performance metrics passengers-mile and passengers-hour are calculated using adjusted vehicle revenue hour (VRH) and vehicle revenue mile (VRM) sizing metrics that include deadhead hours and miles for uni-directional commuter routes greater than 20 miles
- **Proposed:** DRPT proposes that the performance metrics “Passengers per Hour” and “Passengers per Mile” will be calculated using unadjusted vehicle revenue hour (VRH) and vehicle revenue mile (VRM) sizing metrics that do not include deadhead hours and miles for uni-directional commuter routes greater than 20 miles

MERIT Operating Assistance Operating Cost Metrics

- **Current:** The MERIT – Operating Assistance Technical Guide (link) currently defines two separate Operating Cost metrics used in the Operating Assistance Formula, defined below:
  - **Operating Cost for System Sizing (Reimbursable Expenses on Application):** Most recent audited operating cost available, less depreciation, less expenses for projects funded by other DRPT programs that do not expand transit operations, and less non-transit related expenses.
  - **Operating Cost for Performance Metrics**: Total operating costs less depreciation, ineligible costs, and less non-transit related expenses.
- **Proposed:** DRPT proposes using the "Operating Cost for Performance Metrics" for both the Sizing and Performance Set Aside Distribution steps in the formula

MERIT Operating Assistance Current Formula, Challenges and Proposed Solutions

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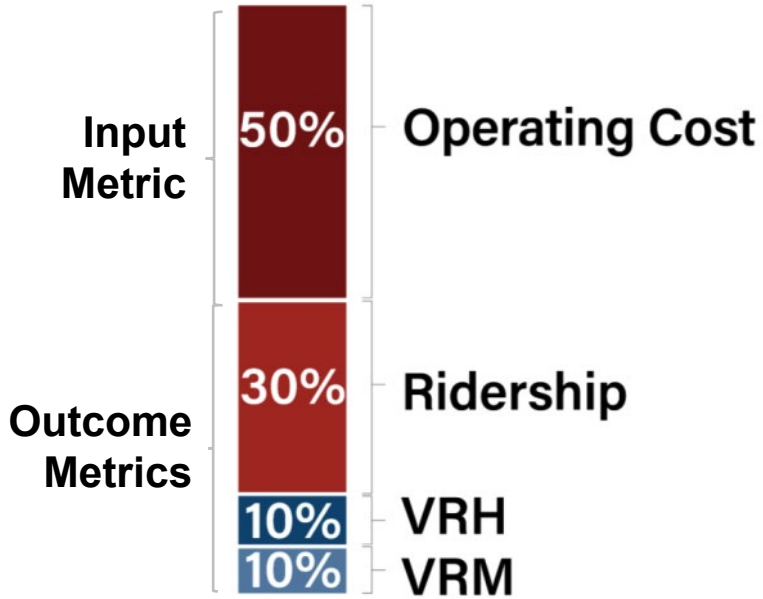
Current MERIT Operating Allocation Approach

CURRENT FORMULA

STEP 1: Sizing Metric



STEP 2: Performance (Trend) Adjustments

20%	x	Pax/ VRH SP-Weight
20%	x	Pax/ VRM SP-Weight
20%	x	Cost/ VRH SP-Weight
20%	x	Cost/ VRM SP-Weight
20%	x	Cost/ Pax SP-Weight

Redistribution - Return to Step 1

MERIT funding for each agency capped at 30% of prior year Operating Cost

Pax = Passengers
VRH = Vehicle Revenue Hour
VRM = Vehicle Revenue Mile

Vehicle Revenue Hours and Miles include deadhead hours and miles for Commuter Bus service

MERIT Operating Assistance Formula Challenges and Proposed Solutions

Challenges	Objective	Proposed Solutions
Input Focused Elements of current program allocate funds based largely on inputs (costs) rather than outputs (service levels; ridership)	Emphasize **outcome focused metrics** vs. input focused metrics	Shift weights away from operating cost to ridership and service metrics
Incentivizing Performance of All Operators Very large and very small agencies with different operational goals must compete in the same space	Emphasize **operational efficiency** to incentivize resource optimization	Add a separate performance allocation. Sizing has performance basis in ridership, VRH & VRM use
Formula Complexity Makes the program difficult for grantees and decision makers to understand	Prioritize **simplification** and **transparency**	Replace trend analysis as it creates anomalies in which good performance is not always rewarded
Annual Variability Data inputs change annually, making it difficult for staff and transit agencies to run predictive models	Look for ways to provide year-over-year **predictability**	Limit significant year-over-year swings in allocations

MERIT Operating Assistance
Challenges to Resolve - #1: Input-Focused Formula

The current formula..	To address..
High weight of cost factor has led to **unintended results** where performance improvements (such as lowering cost) can end up causing a reduction in allocation; agencies have less incentive to reduce cost and seek efficiencies	• **Retain cost** in sizing to account for regional-modal differences in cost structures but **reduce its weight** to mitigate unintended results and focus on **performance and outcomes**

Example: **The City of Petersburg**

- Reported similar levels of ridership, revenue hours, and revenue miles in FY26 compared to FY25. However, due to staffing changes, its operating costs were significantly lower in FY26.
- Since cost is the largest sizing metric, and because expenses set the upper limit on the total funding allocation as a result of the 30% cap, operating assistance declined
- Reduction in cost led to a smaller allocation of operating assistance funds, even though the agency showed strong trend performance

MERIT Operating Assistance
Challenges to Resolve - #2: Performance Trend Basis

The current formula..	To address…
Is 100% **performance TREND based**. Trends are highly sensitive to external factors, e.g., pandemic & less sensitive to performance improvement measures • 20% weight of each metric dilutes impact of any single metric & makes tracing impact on allocations difficult	• Apply an **absolute measure of performance** and weighs outcome measures highly in sizing • Apply a **clean 5% performance set aside** (as opposed to allocation adjustment) that **minimizes unfair advantage** due to intrinsic factors e.g., location, zero fare, university, etc.

Example: **Valley Metro (Greater Roanoke Transit Company)**

- Has high absolute performance compared to statewide averages (high cost efficiency vs. statewide avg.)
- Has reported consistent (flat) ridership and service performance metrics each year and slightly increasing cost
- In past three years, performance trend adjustments had a net negative impact on allocation (size weight adjusted down by **-1.7%**, **-4.3%** and **-9.1%** in FY24, FY25 and FY26, respectively) because statewide average trends were improving faster than Valley Metro's.
- Not seeing its strong absolute performance rewarded with current approach

MERIT Operating Assistance
Challenges to Resolve - #3: Formula Complexity

The current formula..	To address…
Due to its mathematical **complexity** does not allow agencies to have any meaningful impact on allocation through performance improvement • 4 sizing measures (50% cost, an input measure) • 5 performance metrics that adjust allocation up-down based on 3-year trends	• **Simplify formula** with fewer metrics allowing agencies to focus on and manage those metrics: • 4 sizing: cost, ridership, VRH, VRM* (65% outcome measures) • 3 performance: 50% cost efficiency, 50% service efficiency* Significant outcome measures in sizing and a clean performance set-aside provide for a formula that, as a whole, is performance based *performance or outcome focused measures

Example: **Bay Aging**

- Like many smaller transit agencies, reports consistent performance metrics each year although given the large geographic area served, its absolute performance is significantly below statewide average.
- In FY26, size weight adjusted down **-11.5%** because the statewide average trend was improving, but its metrics stayed flat.
- No change in performance metrics still had a negative impact on its allocation

MERIT Operating Assistance Limitations of Current Review

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MERIT Operating Assistance Applied Data

- **Existing Data**
  - Operating Cost
  - Ridership
  - Vehicle Revenue Miles
  - Vehicle Revenue Hours
- **Potential Data**
  - Passenger Miles Traveled (PMT)
    - Need additional time and budget resources for new approaches to collecting PMT data (e.g., cameras)
  - Locally Derived Income (LDI)
    - Need operating fund source data by agency and associated time-effort for data collection and verification.
  - Cost of Living
    - Need approach to isolate agencies by service areas and index for cost of living. Operating cost is currently a proxy for cost of living.

DRPT is initiating a study to investigate additional data points to support MERIT

MERIT Operating Assistance Conceptual Clarifications on Formula Revisions

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MERIT Operating Assistance Conceptual Clarifications

- **Trend analysis is not the same as averages**
  - Trend analysis is directional (+/- based on relative directionality of change over some years) while average is a way to smooth out a couple of years of data.
- **Trend adjustment of size weight does not make the formula "100% performance based"**
  - It is a mathematical technique to adjust sizing based on relative directionality in performance which leads to unexpected and unintended results. E.g., GRTC, Valley Metro and Bay Aging.
  - Since trend adjustment does not have a floor or ceiling there are outliers (e.g., Altavista's size-weight reduced by **14%** and Bay Aging's by **11%** in FY 2026)
  - Having 5% set-aside limits or bookends impact of performance on allocation to avoid high swings to size weight (e.g., in the case of Altavista, Bay Aging and Valley Metro)
    - This bookending is appropriate given the wide diversity in transit systems and contexts of operations.

MERIT Operating Assistance Conceptual Clarifications

- **Using multiple years of performance data versus single year has both advantages and disadvantages** (see Appendix C for detailed comparison)

1-Year Performance Data Scenario	3-Year Performance Data Scenario
Catastrophic event impacts Sizing Metric for 95% of funds for one year in both scenarios	
More significant impact of catastrophic event on 5% Performance Allocation calculation in a single year	Smooths out impact of one year with a catastrophic event to the 5% Performance Allocation calculation
Catastrophic event impacts Performance Allocation calculation for 5% of funds for only one year	Catastrophic event impacts 5% Performance Allocation calculation for three years
Rewards improved performance due to strategic changes in service (i.e., changes to route alignment to improve performance) in next year's 5% Performance Allocation	Impact of improvement in performance will take three years to be fully rewarded in 5% Performance Allocation

- **Less number of metrics (e.g., reducing from 5 to 3) does not make the formula less performance based.**

MERIT Operating Assistance Evaluation Process and Scenarios Tested

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MERIT Operating Assistance
Developing and Evaluating Scenarios

Data Inputs

- Only data already collected and verified by DRPT was applied
- Other data (like population or vehicle counts) was excluded due to collection and reliability issues

Scenario Definition

- More than 30 separate scenarios developed
- Each tested changes individually and in combination

(e.g., adjusting size-weights alone vs. combined with change in performance metrics)

Scenario Analysis

- Each scenario was rated according to policy goals
- Scenarios with negative or unintended impacts were removed from consideration

Short-listing

- DRPT leadership and staff evaluated outcomes to narrow down the list*
- Promising scenarios were evaluated based on their average impact over FY24–26

**Historic data was used to estimate how funds would have been allocated in past years if the alternative formulae were in effect to support this analysis. Future outcomes will be different from the data presented.*

MERIT Operating Assistance Approaches Tested

Approach	Description	Objectives Addressed	# Scenarios Evaluated
Adjust Size-Weight	Test different weights for sizing metrics focused on reducing weight of Operating Cost	Outcome-Focused	6
Eliminate Iteration	Formula math simplification	Simplification	2
Revised Performance-Based Allocation	Retain trend analysis and add another measure to reward absolute performance	Operational Efficiency	4
Introduce Performance Set-Aside	Introduce a performance set-aside for the absolute performance measure w-wo trend analysis	Transparency, Simplification	5
Adjust Funding Caps	Test different caps to limit growth in allocation over prior years	Predictability	2
Combination Approaches	Various combinations of Approaches 1-5	Multiple Goals	15+

Over 35 Scenarios Evaluated in Total

MERIT Operating Assistance
Key Scenarios Presented to TSDAC

Proposed Formula

Other Key Scenarios Presented

Scenario	Sizing weights *(Cost-Pax-VRH-VRM)*	Performance Basis	Other Features
Sizing + Performance	***35-35-15-15***	***Remove trend adj.; 5% set-aside Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25***	***One year of Performance data***
Sizing + Performance Alternative	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	**3-year average for Performance data**
Sizing + Performance Sensitivity Tests	35-35-15-15	Remove trend adj.; **10%, 15%, 20% set-aside**; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	One year of Performance data
Sizing + Performance Alternatives	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	**With administrative changes to calculations**
Sizing Only	35-35-15-15	**Trend Adjustment**	-
Sizing + Performance	**40-40-10-10**	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	One year of Performance data
Remove Cost from Sizing	**0-60-20-20**	**Trend Adjustment**	-
Additional Performance Allocation	**50-30-10-10**	**Trend adj. + additional Step X** of absolute performance allocation for capped remainder	**Step X: One year of Performance data**
Capped Funding Growth	**50-30-10-10**	**Trend Adjustment**	**Funding capped at 10% over prior year**

Bold text highlights how other scenarios differed from the Proposed Formula

MERIT Operating Assistance Proposed Formula Methodology

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MERIT Operating Assistance
Revising Approach to Align with Policy Goals

Policy Goal

- **Deliver the most value and best outcomes for our customers as efficiently as possible.**

Objectives	Features of Proposed Approach
Outcome Focused Metrics	• Prioritize current outcome-focused metrics of ridership, VRM, and VRH • Retain cost to reflect regional-modal differences in cost structures
Simplification & Transparency	• Set aside share of funding for performance-based incentive • Remove iterative calculations and trend adjustments • Use single-year performance data
Operational Efficiency	• Combine sizing and performance incentives to maximize resource use

3 of 4 Identified Objectives Achieved

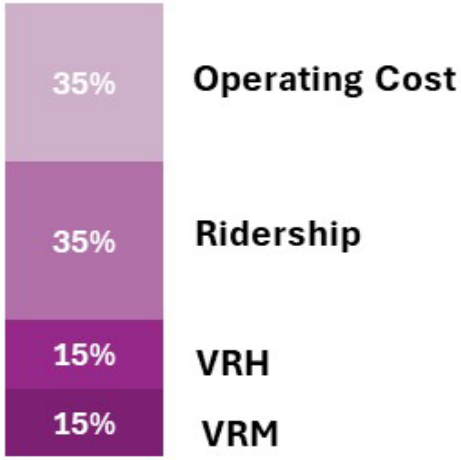
MERIT Operating Assistance Proposed Formula

Available Operating Assistance

95%

Step 1: Sizing Metric

Based on Input and Output Size-based Metrics

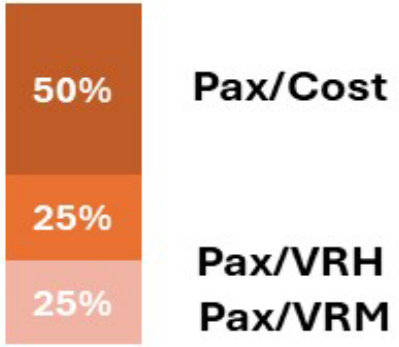


Pax = Passengers
VRH = Vehicle Revenue Hour*
VRM = Vehicle Revenue Mile*
* Includes deadhead for Commuter Bus services

5%

STEP X: Performance Set-Aside + Step 1 Remainder after 30% Cap**

Based on Single Year Performance



**MERIT funding for each agency capped at 30% of prior year Operating Cost

MERIT Operating Assistance
Key Changes: Weights of Step 1 Metrics

This step accounts for the relative size of a transit agency in terms of the amount of service provided

- Metrics remain same as Operating Cost is a proxy for cost structure, service type and geographic location
- Weights are adjusted: Operating Cost is de-emphasized and Ridership, VRH and VRM are emphasized
- **95%** of available Operating Revenues are distributed based on the relative sizing metric for each agency which includes greater emphasis on outcome focused measures

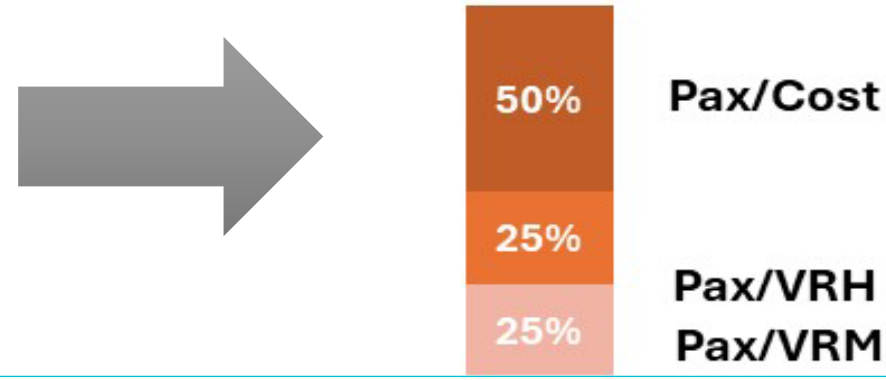
MERIT Operating Assistance
Key Changes: STEP 2-X Performance Evaluation

The trend-based adjustment to sizing is proposed to be replaced with a 5% set-aside

CURRENT
Performance (Trend) Adjustments

- 20% x Pax/ VRH SP-Weight
- 20% x Pax/ VRM SP-Weight
- 20% x Cost/ VRH SP-Weight
- 20% x Cost/ VRM SP-Weight
- 20% x Cost/ Pax SP-Weight

PROPOSED
5% Performance Set-Aside +
Step 1 Remainder after 30% Cap

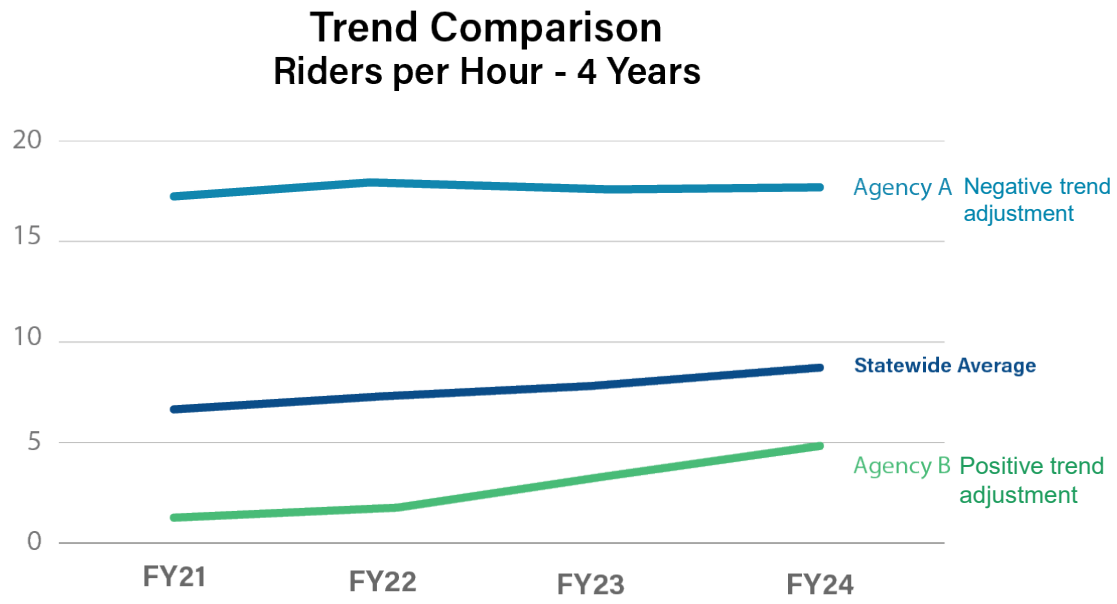


- Includes a clean **5% set aside** (as opposed to a trend-based adjustment of the size-weight)
- Uses an absolute measure of performance for the most recent single year of data (Alternative 1) rather than a multi-year trend
- An Alternative 2 that averages 3 years of data was also presented to TSDAC and for public comment

MERIT Operating Assistance
Key Changes: STEP 2-X (continued)
Why Direct Performance Measurement Over Trend Adjustment

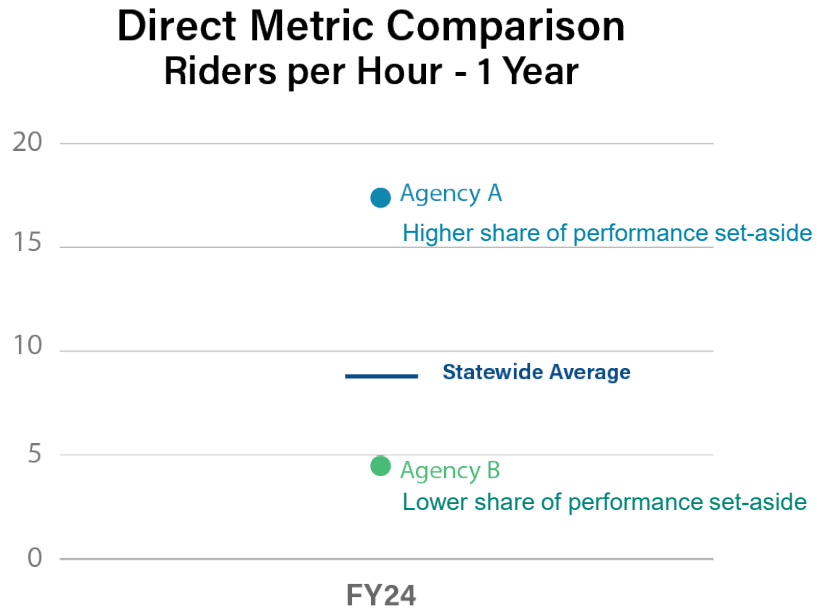
DIRECT PERFORMANCE MEASUREMENT

- Agencies compared directly on specific metrics to determine **higher vs. lower** performance outcomes.



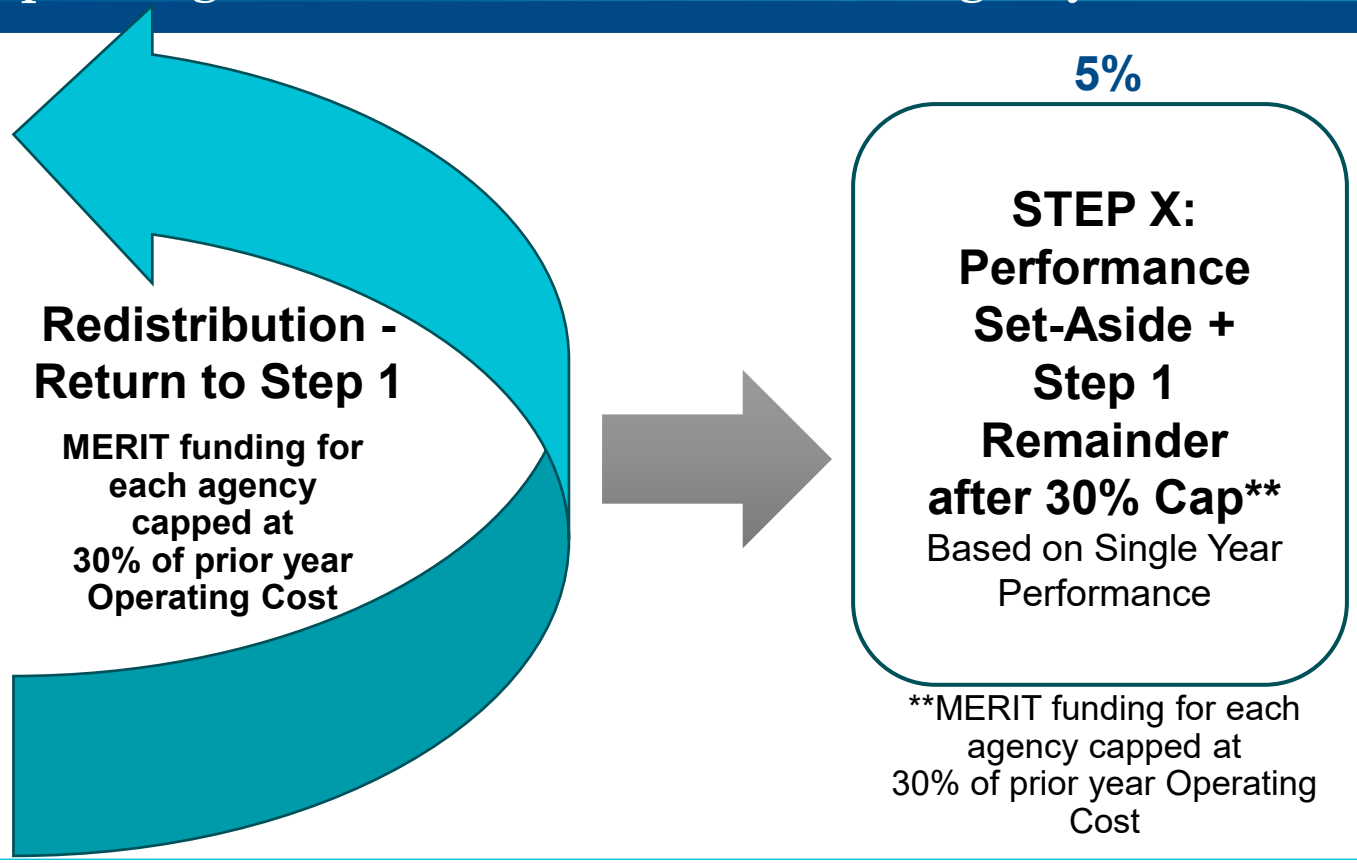
TREND ADJUSTMENT

- Agency trends are compared to statewide average trends to compute **relative** direction of change over time: **improving, steady or declining** slope



MERIT Operating Assistance
Key Changes: Step 3 Funding Cap

A 30% cap is set on the operating assistance allocations to each agency



- Funds remaining after Step 1 are distributed via the Performance Set Aside Distribution to agencies that have received initial allocations below their cap avoiding multiple iterations

MERIT Operating Assistance Estimated Allocations Under Proposed Formula

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MERIT Operating Assistance Estimating Allocation Impacts

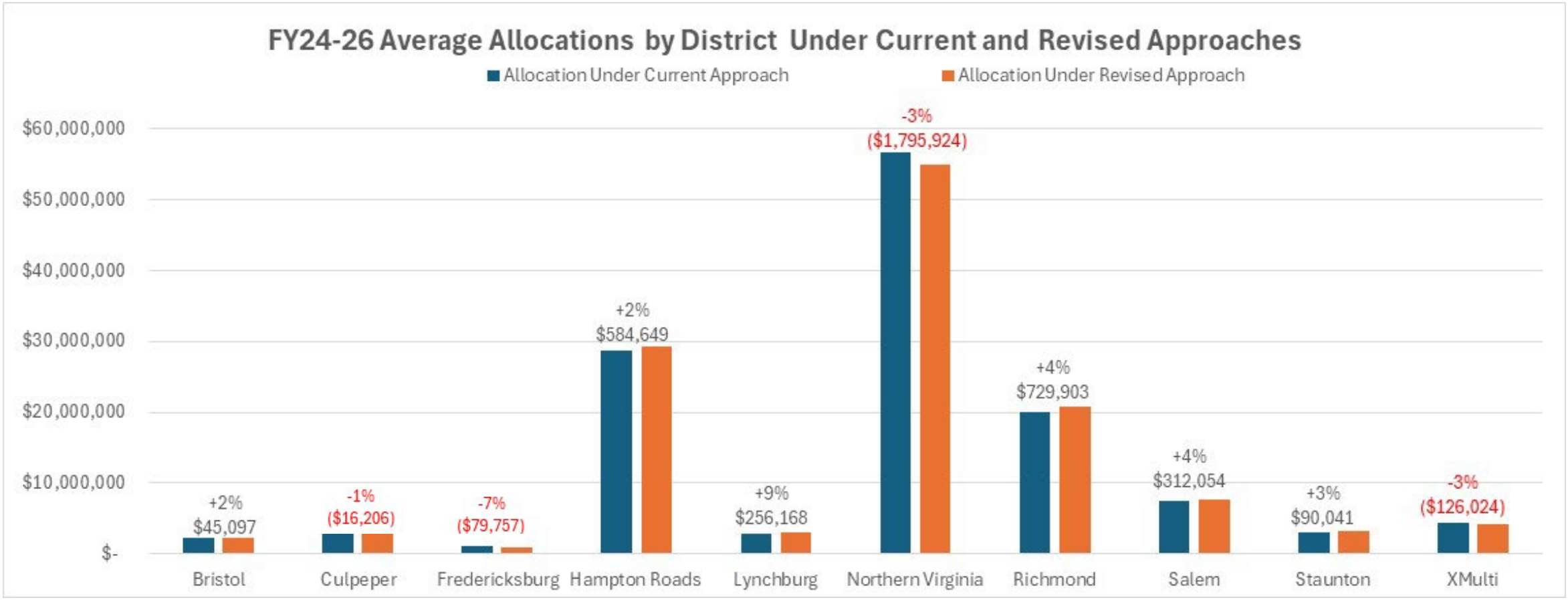
- Historic data applied in next few slides estimates how funds would have been allocated in past years if the proposed formula were in effect
  - This helps to indicate how allocations could generally shift based on changes to formula
  - Estimates average allocations for 3-year period, FY24-FY26
- Future allocations will be based on future data
  - Formula changes are proposed to take effect in FY28, which will apply FY26 annual data
- Future allocations may differ materially from historic summaries due to:
  - Change total amount of MERIT Operating Assistance distributed by the Commonwealth
  - Changes in statewide total operating and performance metrics applied in formula
  - Changes in individual agency operating and performance metrics
  - Changes in transit operator performance relative to other operators

Evaluate the public policy goals, not the individual outcomes, as many variables impact allocations from year to year.

MERIT Operating Assistance
Proposed Formula Estimated Allocations
FY 24-26 Average by District

Construction District	Average Allocation According to Current Approach	Average Allocation According to Revised Approach	Difference	% Difference
BY DISTRICT				
Bristol	$ 2,257,448	$ 2,302,545	45,097	2%
Culpeper	$ 2,971,812	$ 2,955,606	(16,206)	-1%
Fredericksburg	$ 1,071,485	$ 991,728	(79,757)	-7%
Hampton Roads	$ 28,692,231	$ 29,276,880	584,649	2%
Lynchburg	$ 2,772,386	$ 3,028,554	256,168	9%
Northern Virginia	$ 56,728,252	$ 54,932,328	(1,795,924)	-3%
Richmond	$ 20,052,091	$ 20,781,994	729,903	4%
Salem	$ 7,455,197	$ 7,767,251	312,054	4%
Staunton	$ 3,142,870	$ 3,232,912	90,041	3%
XMulti	$ 4,404,644	$ 4,278,619	(126,024)	-3%

MERIT Operating Assistance
Proposed Formula Estimated Allocations
FY 24-26 Average by District



MERIT Operating Assistance Proposed Formula Estimated Allocations

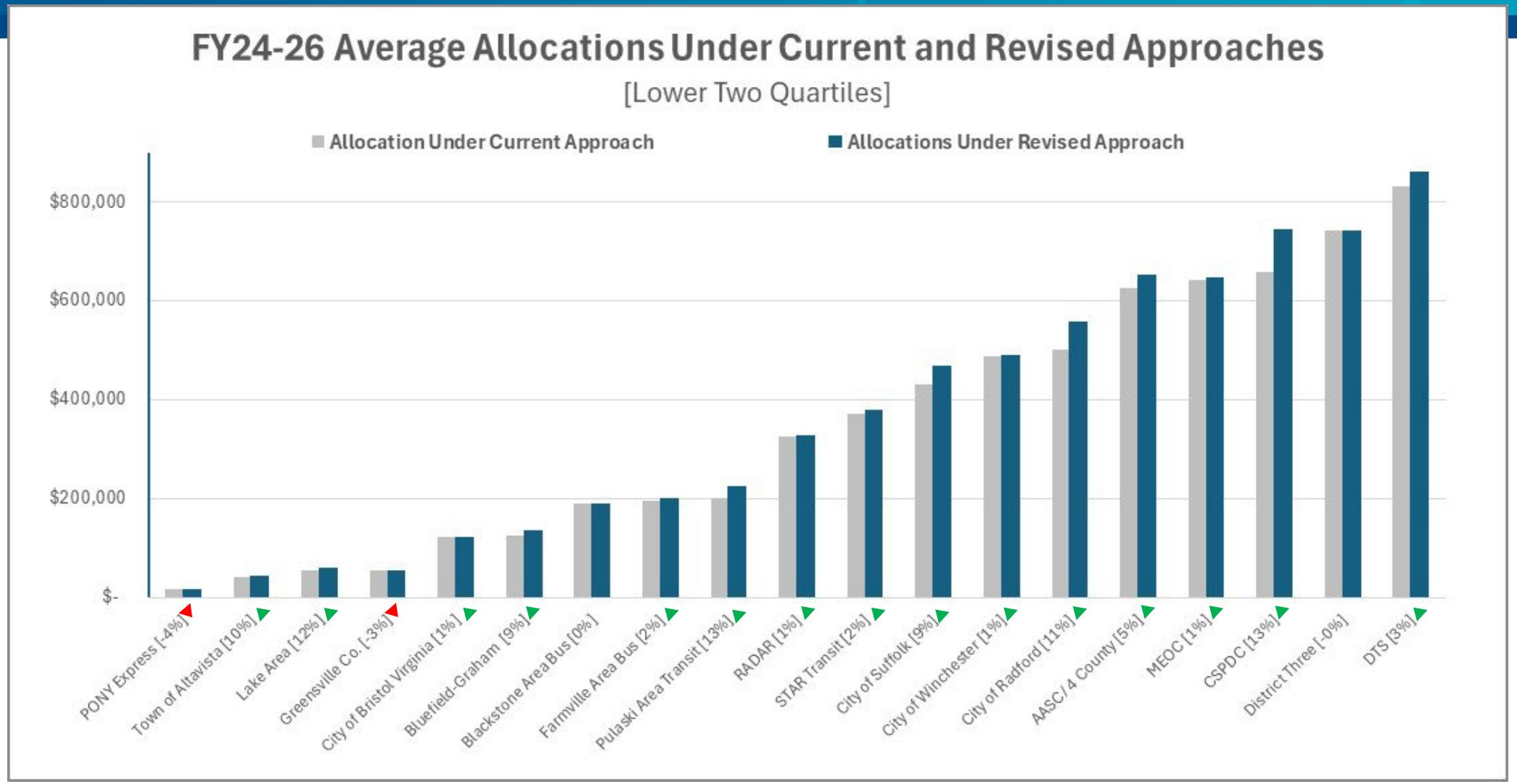
FY 24-26 Average by Agency

- Most agencies stay within +-- 5% of current allocations
- Significant outliers
  - Fairfax County (–)
  - PRTC-OmniRide (–)
  - FXBGo! (–)
  - GRTC (+)
  - HRT (+)
  - Arlington County (+)
  - Valley Metro (+)
  - Lynchburg (+)

Recipient (Eligible Agency)	Average Allocation According to Current Approach	Average Allocation According to Revised Approach	Difference	% Difference
AASC / Four County Transit	$ 625,123	$ 653,355	28,233	5%
City of Bristol Virginia	$ 121,344	$ 122,090	746	1%
District Three Public Transit	$ 742,893	$ 742,472	(422)	0%
Mountain Empire Older Citizens, Inc.	$ 642,600	$ 647,500	4,900	1%
Town of Bluefield-Graham Transit	$ 125,489	$ 137,128	11,640	9%
Charlottesville Area Transit	$ 2,971,812	$ 2,955,606	(16,206)	-1%
FRED / Fredericksburg Regional Transit	$ 1,071,485	$ 991,728	(79,757)	-7%
City of Suffolk	$ 430,651	$ 468,027	37,376	9%
Greensville County	$ 54,768	$ 53,339	(1,430)	-3%
Hampton Roads Transit	$ 25,537,379	$ 26,045,102	507,722	2%
STAR Transit	$ 371,187	$ 379,554	8,367	2%
Town of Chincoteague	$ 17,019	$ 16,376	(643)	-4%
Williamsburg Area Transit Authority	$ 2,281,227	$ 2,314,484	33,256	1%
Danville Transit System	$ 832,019	$ 860,800	28,781	3%
Farmville Area Bus	$ 196,264	$ 200,739	4,475	2%
Greater Lynchburg Transit Company	$ 1,703,062	$ 1,921,935	218,873	13%
Town of Altavista	$ 41,042	$ 45,080	4,038	10%
Loudoun County	$ 3,666,512	$ 3,580,872	(85,640)	-2%
NVTC - Arlington County	$ 6,007,985	$ 6,308,168	300,183	5%
NVTC - City of Alexandria	$ 9,299,604	$ 9,245,879	(53,725)	-1%
NVTC - City of Fairfax	$ 1,591,498	$ 1,620,218	28,720	2%
NVTC - Fairfax County	$ 25,729,693	$ 24,112,896	(1,616,798)	-6%
PRTC	$ 8,187,110	$ 7,438,451	(748,658)	-9%
City of Petersburg	$ 1,198,959	$ 1,180,832	(18,127)	-2%
Greater Richmond Transit Company	$ 18,853,132	$ 19,601,162	748,030	4%
Blacksburg Transit	$ 3,483,121	$ 3,483,121	(0)	0%
City of Radford	$ 501,124	$ 556,824	55,701	11%
Greater Roanoke Transit Company	$ 3,271,540	$ 3,502,448	230,908	7%
Pulaski Area Transit	$ 199,411	$ 224,857	25,445	13%
Central Shenandoah PDC	$ 657,710	$ 745,223	87,513	13%
City of Harrisonburg Dept. of Public Transportation	$ 1,997,493	$ 1,997,493	0	0%
City of Winchester	$ 487,667	$ 490,196	2,528	1%
Bay Aging	$ 1,190,937	$ 1,186,282	(4,655)	0%
Blackstone Area Bus	$ 189,468	$ 189,468	0	0%
JAUNT	$ 1,563,531	$ 1,400,499	(163,033)	-10%
Lake Area	$ 53,873	$ 60,192	6,319	12%
RADAR	$ 324,336	$ 329,195	4,859	1%
VRT	$ 1,082,499	$ 1,112,984	30,485	3%

MERIT Operating Assistance
Current and Proposed Formula Est. Allocations (1)

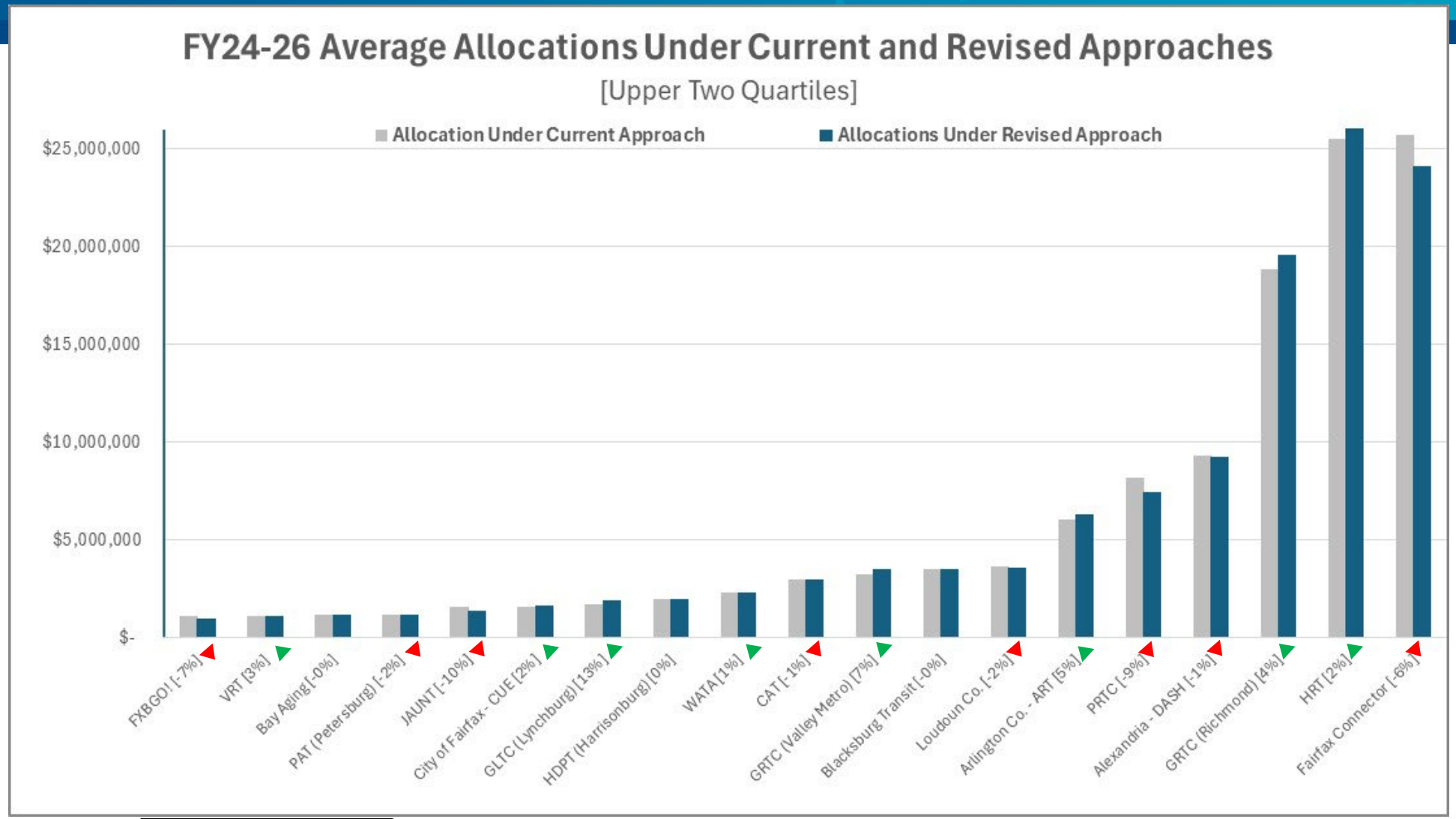
FY 24-26 Average by Agency



Large Urban	(672,207)	-0.61%
Small Urban/Rural	672,207	3.60%

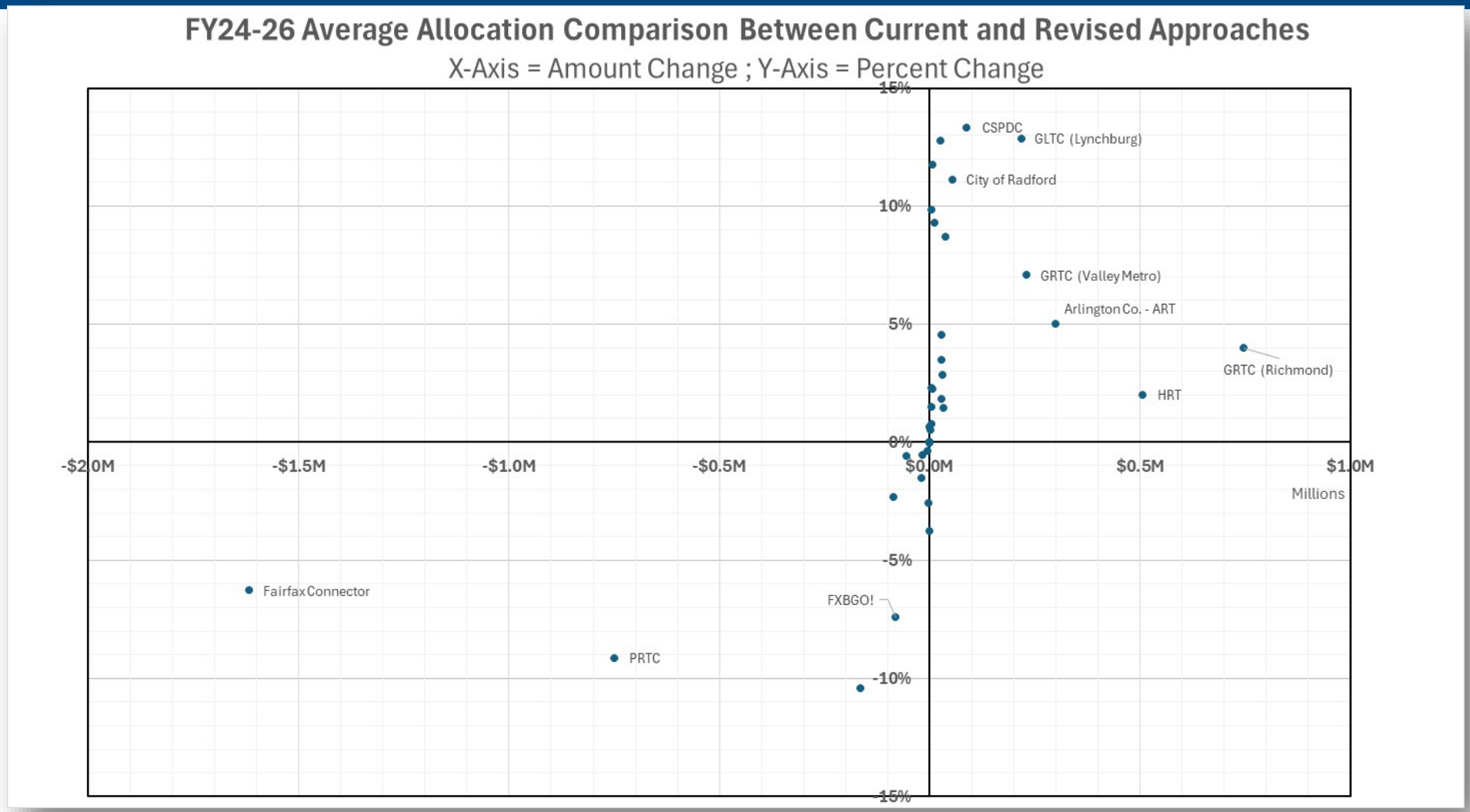
MERIT Operating Assistance
Current and Proposed Formula Est. Allocations (2)

FY 24-26 Average by Agency



Large Urban	(672,207)	-0.61%
Small Urban/Rural	672,207	3.60%

MERIT Operating Assistance
Current and Proposed Formula Estimated Allocation Comparison
FY 24-26 Average by Agency



MERIT Operating Assistance Alternative Operating Assistance Allocation Approaches for Future Consideration

MERIT Operating Assistance
Alternative Approaches for Future Consideration

- **Tiered Allocations by Mode (motor bus, paratransit, commuter bus, etc.)**
  - Need standardized methodology for allocating administrative-overhead costs by mode
  - Need approach to partition revenues into tiers
- **Tiered Allocations by Transit Agency Type (Large Urban, Small Urban-Rural)**
  - Need standardized procedures for reporting performance measures
  - Need to account for agencies that provide multiple types of services
  - Need approach to partition revenues into tiers
- **Additional Data**
  - Passenger Miles Traveled (PMT)
  - Locally Derived Income (LDI)
  - Cost of Living

DRPT is initiating a study to investigate additional data points to support MERIT

Discussion

Next Steps

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Next Steps

- **February 10, 2026**
  - TSDAC Meeting
- **March 10, 2026**
  - TSDAC Meeting
- **April 14, 2026**
  - TSDAC Meeting
- **April 21, 2026**
  - CTB: Workshop to discuss proposed approach
- **May 19, 2026**
  - CTB: Final adoption

Questions?

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Appendix A: Timeline of MERIT Operating Alternatives Presented in 2025

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Summary of Alternatives Presented in 2025

Month	Scenario	Sizing weights *(Cost-Pax-VRH-VRM)*	Performance Basis	Other Features
July	Sizing Only	35-35-15-15	Trend Adjustment	-
	Sizing + Performance	40-40-10-10	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	One-year of Performance data
July 29, 2025	***Sizing + Performance***	***35-35-15-15***	***Remove trend adj.; 5% set-aside Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25***	***One-year of Performance data***
August 27, 2025	***Sizing + Performance***	***35-35-15-15***	***Remove trend adj.; 5% set-aside Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25***	***One-year of Performance data***
	Sizing + Performance Alternatives	35-35-15-15	Remove trend adj.; 10%, 15%, 20% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	One-year of Performance data
	Sizing Adjustment Only	35-35-15-15	Trend Adjustment	-
	Remove Cost from Sizing	0-60-20-20	Trend Adjustment	-
	Additional Performance Allocation	50-30-10-10	Trend adj. + additional Step X of absolute performance allocation for capped remainder	Step X: One-year of Performance data
	Capped Funding Growth	50-30-10-10	Trend Adjustment	Funding capped at 10% growth over prior year

"***Sizing + Performance***" = Proposed Formula

Summary of Alternatives Presented to TSDAC in 2025 (continued)

Month	Scenario	Sizing weights *(Cost-Pax-VRH-VRM)*	Performance Basis	Other Features
October 6, 2025	Sizing + Performance Alt A	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	3-year average Performance data
	Sizing + Performance Alt B	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	Performance calculation Excludes Deadhead miles and hours for commuter bus
	Sizing + Performance Alt C	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	Sizing applies total cost of operations
	Sizing + Performance Alt D	35-35-15-15	Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	Combination of Alt A, B and C
November 24, 2025	***Sizing + Performance***	***35-35-15-15***	***Remove trend adj.; 5% set-aside; Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25***	***One-year of Performance data***
	Sizing + Performance Alt A	35-35-15-15	Remove trend adj.; 5% set-aside Pax/Cost-Pax/VRH-Pax/VRM : 50-25-25	3-year average Performance data

"***Sizing + Performance***" = Proposed Formula

Appendix B:
MERIT Operating Assistance Alternatives Presented on August 27, 2025 TSDAC Meeting

MERIT-Operating-and-Capital-Briefing.pdf

A. Sizing Adjustment Only
FY 26 Estimated Allocation

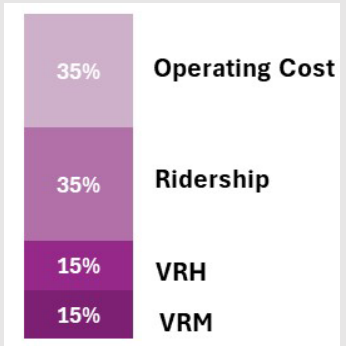
Construction District	Current Allocations	Revised Allocations	Difference	% Difference
BY DISTRICT				
Bristol	$ 2,084,998	**$ 2,187,924**	102,925	5%
Culpeper	$ 3,555,342	**$ 3,574,298**	18,956	1%
Fredericksburg	$ 1,077,295	**$ 1,056,543**	(20,752)	-2%
Hampton Roads	$ 27,898,428	**$ 27,575,793**	(322,635)	-1%
Lynchburg	$ 2,663,086	**$ 2,700,905**	37,819	1%
Northern Virginia	$ 55,092,509	**$ 54,359,261**	(733,248)	-1%
Richmond	$ 19,815,990	**$ 20,369,515**	553,525	3%
Salem	$ 7,689,792	**$ 7,845,595**	155,803	2%
Staunton	$ 3,362,544	**$ 3,435,208**	72,663	2%
XMulti	$ 3,464,885	**$ 3,599,828**	134,944	4%
Unchanged			***6***	
Lose Funds			***7***	
Gain Funds			***25***	

- Minor changes to allocations but does not address any other goal

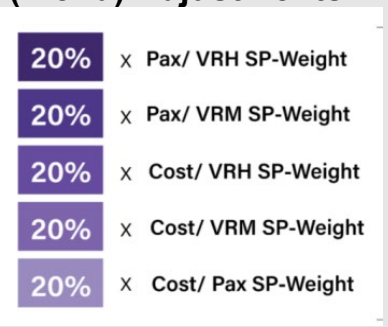
Only Adjusts Sizing Weights

POTENTIAL FORMULA

STEP 1: Sizing Metric



STEP 2: Performance (Trend) Adjustments



B. Remove Cost from Sizing

FY 26 Estimated Allocation

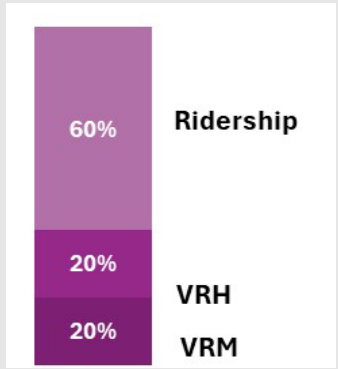
Construction District	Current Allocations	Revised Allocations	Difference	% Difference
BY DISTRICT				
Bristol	$ 2,084,998	$ **2,221,793**	136,795	7%
Culpeper	$ 3,555,342	$ **3,785,791**	230,449	6%
Fredericksburg	$ 1,077,295	$ **995,737**	(81,558)	-8%
Hampton Roads	$ 27,898,428	$ **26,235,266**	(1,663,162)	-6%
Lynchburg	$ 2,663,086	$ **2,663,566**	480	0%
Northern Virginia	$ 55,092,509	$ **52,241,051**	(2,851,458)	-5%
Richmond	$ 19,815,990	$ **23,577,307**	3,761,317	19%
Salem	$ 7,689,792	$ **8,085,418**	395,627	5%
Staunton	$ 3,362,544	$ **3,526,464**	163,919	5%
XMulti	$ 3,464,885	$ **3,372,476**	(92,409)	-3%
Unchanged			***6***	
Lose Funds			***11***	
Gain Funds			***21***	

- Shifts to outcomes-based sizing approach
- Major change from current approach
- Does not account for higher cost of certain service types (commuter bus and light rail), or regional variation in labor, operating cost
- Results in significant shift in allocation away from systems serving major urban centers
- Allocations are still limited by 30% cap

Removes Cost from Sizing Metric

POTENTIAL FORMULA

STEP 1: Sizing Metric



STEP 2: Performance (Trend) Adjustments

C. Additional Performance Allocation

FY 26 Estimated Allocation

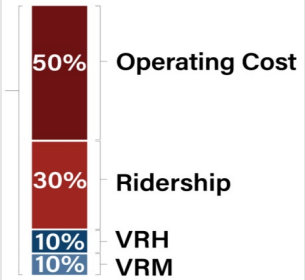
Construction District	Current Allocations	Revised Allocations	Difference	% Difference
BY DISTRICT				
Bristol	$ 2,084,998	**$ 2,059,987**	(25,011)	-1%
Culpeper	$ 3,555,342	**$ 3,561,495**	6,154	0%
Fredericksburg	$ 1,077,295	**$ 1,069,217**	(8,078)	-1%
Hampton Roads	$ 27,898,428	**$ 27,811,214**	(87,214)	0%
Lynchburg	$ 2,663,086	**$ 2,648,408**	(14,678)	-1%
Northern Virginia	$ 55,092,509	**$ 54,998,147**	(94,362)	0%
Richmond	$ 19,815,990	**$ 20,113,345**	297,354	2%
Salem	$ 7,689,792	**$ 7,680,622**	(9,170)	0%
Staunton	$ 3,362,544	**$ 3,353,928**	(8,616)	0%
XMulti	$ 3,464,885	**$ 3,408,505**	(56,379)	-2%
Unchanged			***6***	
Lose Funds			***24***	
Gain Funds			***8***	

- Only capped remainder is allocated per Step X
- Does not simplify and adds a layer of complexity to current approach

Keeps Step 2, Adds Step X

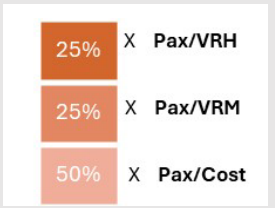
POTENTIAL FORMULA

STEP 1: Sizing Metric



STEP 2: Performance (Trend) Adjustments

STEP X: Performance Allocation of 30% Capped Remainder of Step 2



D. Capped Funding Growth

FY 26 Estimated Allocation

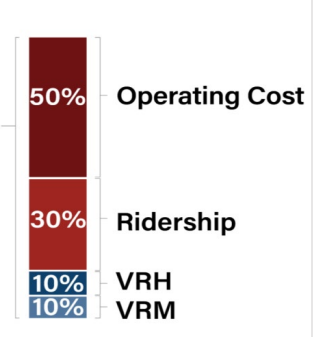
Construction District	Current Allocations	Revised Allocations	Difference	% Difference
BY DISTRICT				
Bristol	$ 2,084,998	**$ 2,114,797**	29,798	1%
Culpeper	$ 3,555,342	**$ 2,863,825**	(691,517)	-19%
Fredericksburg	$ 1,077,295	**$ 1,093,536**	16,241	2%
Hampton Roads	$ 27,898,428	**$ 28,310,466**	412,038	1%
Lynchburg	$ 2,663,086	**$ 2,703,235**	40,149	2%
Northern Virginia	$ 55,092,509	**$ 54,640,420**	(452,088)	-1%
Richmond	$ 19,815,990	**$ 20,114,735**	298,744	2%
Salem	$ 7,689,792	**$ 7,747,790**	57,999	1%
Staunton	$ 3,362,544	**$ 3,322,049**	(40,495)	-1%
XMulti	$ 3,464,885	**$ 3,507,975**	43,090	1%
Unchanged			***4***	
Lose Funds			***5***	
Gain Funds			***29***	

- Having a ceiling disconnects the formula from the sizing metrics (cost and ridership) and any performance basis artificially
- Does not account for external factors that may warrant a greater-than-threshold increase in allocation such as a significant increase in cost or ridership

Caps Funding Growth at 10%

POTENTIAL FORMULA

STEP 1: Sizing Metric



STEP 2: Performance (Trend) Adjustments

Funding capped at 10% growth over prior year allocations

Appendix C:
MERIT Operating Assistance Alternative Presented on October 6, 2025 TSDAC Meeting

October-2025-TSDAC-MERIT-Review.pdf

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Grantee	Current Formula	Sizing + Performance Adjustment *(Single Year Performace)*		Sizing + Performance Adjustment *(3-Year Average Performace)*	
		$ Difference	% Difference	$ Difference	% Difference
AASC / Four County Transit	$ 625,123	$ 28,233	5%	$ 28,965	5%
City of Bristol Virginia	$ 121,344	$ 746	1%	$ 69	0%
District Three Public Transit	$ 742,893	$ (422)	0%	$ (2,859)	0%
Mountain Empire Older Citizens, Inc.	$ 642,600	$ 4,900	1%	$ 4,900	1%
Town of Bluefield-Graham Transit	$ 125,489	$ 11,640	9%	$ 11,689	9%
Charlottesville Area Transit	$ 2,971,812	$ (16,206)	-1%	$ (10,810)	0%
FRED / Fredericksburg Regional Transit	$ 1,071,485	$ (79,757)	-7%	$ (90,110)	-8%
City of Suffolk	$ 430,651	$ 37,376	9%	$ 45,014	10%
Greensville County	$ 54,768	$ (1,430)	-3%	$ (1,673)	-3%
Hampton Roads Transit	$ 25,537,379	$ 507,722	2%	$ 555,628	2%
STAR Transit	$ 371,187	$ 8,367	2%	$ 8,367	2%
Town of Chincoteague	$ 17,019	$ (643)	-4%	$ (816)	-5%
Williamsburg Area Transit Authority	$ 2,281,227	$ 33,256	1%	$ 33,256	1%
Danville Transit System	$ 832,019	$ 28,781	3%	$ 38,715	5%
Farmville Area Bus	$ 196,264	$ 4,475	2%	$ 4,475	2%
Greater Lynchburg Transit Company	$ 1,703,062	$ 218,873	13%	$ 262,189	15%
Town of Altavista	$ 41,042	$ 4,038	10%	$ 4,038	10%
Loudoun County	$ 3,666,512	$ (85,640)	-2%	$ (78,929)	-2%
NVTC - Arlington County	$ 6,007,985	$ 300,183	5%	$ 289,886	5%
NVTC - City of Alexandria	$ 9,299,604	$ (53,725)	-1%	$ (78,968)	-1%
NVTC - City of Fairfax	$ 1,591,498	$ 28,720	2%	$ 6,235	0%
NVTC - Fairfax County	$ 25,729,693	$ (1,616,798)	-6%	$ (1,796,128)	-7%
PRTC	$ 8,187,110	$ (748,658)	-9%	$ (792,055)	-10%
City of Petersburg	$ 1,198,959	$ (18,127)	-2%	$ (19,151)	-2%
Greater Richmond Transit Company	$ 18,853,132	$ 748,030	4%	$ 794,362	4%
Blacksburg Transit	$ 3,483,121	$ (0)	0%	$ (0)	0%
City of Radford	$ 501,124	$ 55,701	11%	$ 61,085	12%
Greater Roanoke Transit Company	$ 3,271,540	$ 230,908	7%	$ 248,736	8%
Pulaski Area Transit	$ 199,411	$ 25,445	13%	$ 25,532	13%
Central Shenandoah PDC	$ 657,710	$ 87,513	13%	$ 84,161	13%
City of Harrisonburg Dept. of Public Transporta	$ 1,997,493	$ 0	0%	$ 0	0%
City of Winchester	$ 487,667	$ 2,528	1%	$ 4,790	1%
Bay Aging	$ 1,190,937	$ (4,655)	0%	$ (5,226)	0%
Blackstone Area Bus	$ 189,468	$ 0	0%	$ 0	0%
JAUNT	$ 1,563,531	$ (163,033)	-10%	$ (167,571)	-11%
Lake Area	$ 53,873	$ 6,319	12%	$ 6,671	12%
RADAR	$ 324,336	$ 4,859	1%	$ 3,685	1%
VRT	$ 1,082,499	$ 30,485	3%	$ 31,476	3%

Not a significant difference in overall outcomes between Single-Year and 3-Year Average Performance

Alt. A: 3-Year Average Performance Scenario

All allocations are average of FY24, 25 and 26

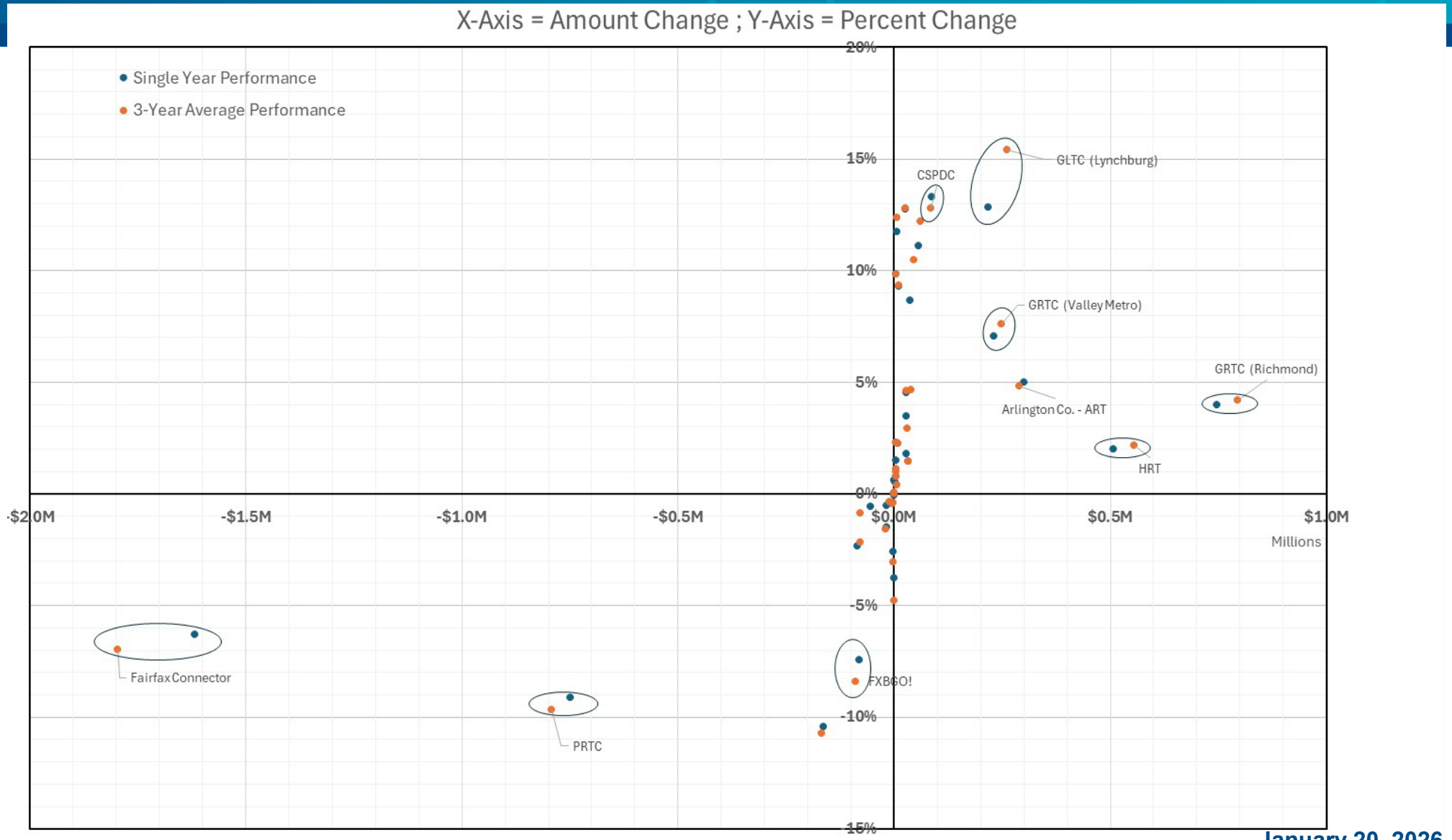
All agencies receiving greater/less than $500K or greater/less than 5% of their current allocation are highlighted in green/red

VIRGINIA DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

January 20, 2026

Change Relative to Current Formula Allocations for Single Year and 3-Year Average Performance Data

Orange dots represent deviation ($/%) from current allocation under the proposed Sizing + Performance formula when applying 3-year average performance data



1. Comparison of 1-Year vs 3-Year Performance Data

1-Year Performance Data Scenario	3-Year Performance Data Scenario
Catastrophic event impacts Sizing Metric for 95% of funds for one year in both scenarios	
More significant impact of catastrophic event on 5% Performance Allocation calculation in a single year	Smooths out impact of one year with a catastrophic event to the 5% Performance Allocation calculation
Catastrophic event impacts Performance Allocation calculation for 5% of funds for only one year	Catastrophic event impacts 5% Performance Allocation calculation for three years
Rewards improved performance due to strategic changes in service (i.e., changes to route alignment to improve performance) in next year's 5% Performance Allocation	Impact of improvement in performance will take three years to be fully rewarded in 5% Performance Allocation

Using 3-year average to calculate performance does not address the significantly larger impact of the same single year metrics on sizing.
Small benefit of smoothing out negative impact to 5% of the allocation is countered by disbenefits noted and additional administrative complexity.