

CHAPTER 5

Financial Plan



(Page Intentionally Left Blank)

Contents

5. Financial Plan & Outlook	5-1
5.1 Operating	5-1
5.1.1. Operating Sources of Funds	5-1
5.1.2. Operating Uses of Funds	5-2
5.1.3. Potential Sources of Funds for Unfunded Operating Needs	5-3
5.2 Capital	5-4
5.2.1. Capital Sources of Funds	5-4
5.2.2. Capital Uses of Funds	5-6
5.2.3. Potential Sources of Funds for Unfunded Capital Needs	5-6
5.3 Reserves	5-7

Tables

Table 5-1: Operating Sources of Funds (YOES\$ Millions)	5-1
Table 5-2: Operating Uses of Funds by Mode (YOES\$ Millions)	5-2
Table 5-3: Bus Revenue Vehicle Hours by Route Type per Year (Thousands)	5-3
Table 5-4: Bus Revenue Vehicle Hours by City (Thousands)	5-3
Table 5-5: Potential Sources of Funds for Unfunded Operating Needs (YOES\$ Millions)	5-4
Table 5-6: Capital Sources of Funds Active and New Projects (YOES\$ Millions)	5-4
Table 5-7: State Funds for Capital Projects (YOES\$ Millions)	5-5
Table 5-8: Cumulative ACC Funding Surplus (YOES\$ Millions)	5-5
Table 5-9: Capital Uses of Funds (YOES\$ Millions)	5-6
Table 5-10: Unfunded Capital Needs (YOES\$ Millions)	5-6

(Page Intentionally Left Blank)

5. Financial Plan & Outlook

This financial plan covers Fiscal Years (FY) 2021 to 2030, for operations and capital investments of the agency. It reflects the cost-constrained plan for transit services the agency has developed with local partners. It is not a budget document. Rather, it reflects a financial snapshot in time related to the services outlined in **Chapter 3**. As the Transit Strategic Plan (TSP) undergoes annual updates, the information contained in this chapter will change year-to-year based on dynamic needs and the most current conditions.

5.1 Operating

This section describes the operating financial outlook for the ten-year plan, including known sources of funds, operating expenditures, as well as potential additional sources of funds to fill funding shortfalls.

5.1.1. Operating Sources of Funds

Table 5-1 below summarizes HRT’s operating sources of funds for the ten years of the plan. Estimates include fare revenues, non-operating revenues, federal funds, state funds, and local funds.

Table 5-1: Operating Sources of Funds (YOES\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Fare Revenues	13.7	14.0	14.2	14.5	14.6	15.0	15.2	15.4	15.6	15.8
Non-Operating Revenues	5.1	5.1	5.2	5.2	5.2	5.2	5.3	5.3	5.4	5.4
Federal Funds (PM, ADA, CCC)	19.7	19.4	19.3	19.0	18.7	18.5	18.4	18.2	18.0	18.3
State Funds	19.9	19.9	19.9	19.9	19.9	20.1	20.3	20.5	20.7	20.9
HRT Performance Based Allocation (%)	21.2%	21.0%	20.8%	20.5%	20.3%	20.3%	20.3%	20.3%	20.3%	20.3%
Local Funds	43.2	43.3	44.3	45.4	46.6	47.7	48.9	50.2	51.4	52.7
Total Operating Sources of Funds	101.6	101.6	102.8	103.9	105.0	106.6	108.0	109.5	111.0	113.1

Fare Revenue

HRT collects fare revenue from its bus, light rail (The Tide), ferry, and paratransit services, but does not collect fare revenue for vanpool service. Bus, The Tide, and ferry all have a \$2.00 base fare; the base fare for paratransit is \$3.50. The results in **Table 5-1** reflect a planned fare increase of \$0.25 for bus, The Tide, and ferry (to a base fare of \$2.25) in FY 2025 and a planned increase of \$0.25 for paratransit in FY 2026 (to \$3.75). Note that HRT may decide to postpone future fare increases based on evolving conditions of the agency.

The plan assumes that baseline bus ridership will grow at one percent annually, paratransit ridership will grow at three percent annually, and The Tide, ferry, and vanpool ridership will remain flat over the TSP planning horizon. Additionally, the plan incorporates fare elasticity assumptions to account for changes in service (for bus only) and fare increases (for all modes excluding vanpool).

Non-Operating Revenues

Non-operating revenues in **Table 5-1** include Traffic Demand Management (TDM) revenue, Unified Planning Work Program (UPWP) grants, grant reimbursements, Elizabeth River Crossing (ERC) operating assistance, advertising revenue, non-transportation revenue, and high occupancy toll (HOT) lane revenue.

Grant reimbursements and ERC operating assistance are expected to grow with the consumer price index (CPI) annually (1.6%). CPI was determined based on the FY 2009 – FY 2019 compounded annual growth rate (CAGR) based on the Bureau of Labor Statistics series “All items in South urban, all urban consumers”. The remaining non-

operating revenues are assumed to be constant throughout the period, aside from high-occupancy toll (HOT) lane revenue which is non-recurring.

Federal Sources of Funds

Federal sources of funds shown in **Table 5-1** include the Federal Transit Administration’s (FTA) Urbanized Area Formula Program (Section 5307) and the State of Good Repair Program (Section 5337). These programs are intended for capital expenses but can be used to fund eligible preventative maintenance (PM) expenses, paratransit service (Americans with Disabilities Act – ADA) and capital cost of contracting (CCC). Throughout the TSP period, HRT plans to gradually reduce the share of federal funds flexed to cover PM expenses, with a target of 65% of Section 5307 funds and 34.5% of Section 5337 funds to be used for PM.

State Sources of Funds

The plan assumes that HRT’s state operating assistance will remain constant at \$19.9 million during the first five years of the TSP period (through FY 2025), and will grow by one percent annually from FY 2026 to FY 2030.

Local Sources of Funds

HRT receives local operating assistance from its six member cities. Each cities’ share of the total local operating assistance is determined based on the Cost Allocation Agreement. The total local operating assistance is determined net of federal funding, state funding, fare revenues, and other sources (e.g., ERC contributions).

Local operating assistance is assumed to remain flat between FY 2021 and FY 2022 and grow 2.5% per year from FY 2023 to FY 2030.

5.1.2. Operating Uses of Funds

Table 5-2 summarizes operating uses of funds by mode. Operating uses of funds for each mode include expenses associated with operations, maintenance, non-vehicle maintenance, and administration.

Baseline escalation for all operating expenses is 1.6%, or CPI. CPI was determined based on the FY 2009 – FY 2019 CAGR based on the Bureau of Labor Statistics series “All items in South urban, all urban consumers”. Escalation assumptions are higher for expense categories such as salaries, fringe, healthcare, and fuel, and may sometimes vary by mode or between operations, maintenance, non-vehicle maintenance, and administrative expenses.

In addition to escalation, bus operating costs reflect a net increase in service during the TSP period as a result of implementing the constrained service plan outlined in **Chapter 3**.

Table 5-2: Operating Uses of Funds by Mode (YOY\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Bus Operating Expenses	74.0	79.1	82.6	88.8	93.9	98.5	102.8	106.8	111.0	115.8
The Tide Operating Expenses	10.7	11.1	11.4	11.6	11.9	12.1	12.4	12.7	13.0	13.3
Paratransit Operating Expenses	15.2	15.8	16.4	17.0	17.7	18.4	19.1	19.8	20.6	21.4
Ferry Operating Expenses	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0
Total Operating Uses of Funds	101.6	107.7	112.1	119.2	125.2	130.9	136.2	141.3	146.5	152.5

Regional Priorities and Policies

One of HRT’s main priorities during the TSP period is to build the Regional Backbone network, offering high-frequency service between cities on key routes. The current cost-constrained plan in **Chapter 3** lays out service frequencies increasing on Regional Backbone routes gradually throughout the ten-year plan.

Table 5-3 depicts the increasing service hours per year by service classification.

Table 5-3: Bus Revenue Vehicle Hours by Route Type per Year (Thousands)

Classification	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Local Priority, Coverage, and PCS Routes	449.8	428.1	425.3	443.3	443.4	446.4	457.5	463.1	469.0	472.5
Regional Backbone Routes	285.8	335.7	353.4	375.7	401.2	417.4	420.8	425.1	429.3	439.1
MAX Routes	40.5	32.4	32.4	31.9	31.9	31.9	31.9	31.9	31.9	31.9
Total	776.1	796.2	811.1	850.9	876.4	895.7	910.3	920.1	930.1	943.4

Table 5-4 depicts the same service increases over the TSP period, splitting the revenue service hours by the six cities, ERC, and MAX.

Table 5-4: Bus Revenue Vehicle Hours by City (Thousands)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Chesapeake	45.4	45.4	48.0	52.3	53.9	58.1	62.5	63.1	64.5	66.0
Hampton	80.9	85.2	85.9	87.4	89.9	91.0	94.1	96.0	98.3	100.4
Newport News	141.1	150.4	156.3	159.4	161.3	164.5	167.4	169.2	171.0	171.3
Norfolk	264.6	267.8	268.4	294.7	302.6	308.1	308.6	310.5	311.6	314.7
Portsmouth	46.4	46.4	47.2	47.9	48.9	50.2	50.4	51.2	51.9	53.5
Virginia Beach	136.4	147.8	151.6	155.8	166.2	170.1	173.5	176.1	178.6	183.4
ERC	20.9	20.9	21.3	21.5	21.6	21.8	21.9	22.1	22.3	22.3
MAX	40.5	32.4	32.4	31.9	31.9	31.9	31.9	31.9	31.9	31.9
Total	776.1	796.2	811.1	850.9	876.4	895.7	910.3	920.1	930.1	943.4

Labor and Service Agreements

HRT's current labor agreement expires at the end of June 2021; labor costs are subject to variation based on contract renegotiation. HRT uses two major service contracts for its paratransit service and for its ferry service. As noted in **Appendix A**, the current paratransit contract has two one-year options available, which could extend the contract to January 31, 2025, and the ferry service contract has a two-year option period, which would extend the contract to July 11, 2023. Service contract costs are subject to variation after these contracts expire.

5.1.3. Potential Sources of Funds for Unfunded Operating Needs

The annual operating surplus/deficit is shown in **Table 5-5** below, where positive values indicate that additional funding or cost savings are needed. Based on current known sources of funds, annual deficits are likely to occur starting FY 2022. These annual operating deficits are due to the service changes outlined in the TSP, which will result in net operating costs growing faster than sources of funds and other changes described in the previous section. At the time the TSP was developed the amount available from other potential funding sources was uncertain. The General Assembly designated new regional transit funding for HRT as part of the 2020 legislative session, which in coming years can be used to directly support HRT capital and operating needs contained in the Hampton Roads Regional Transit Program documented in Chapter 6. As regional funds are programmed and put to use, this can be expected to significantly improve funding certainty and fiscal sustainability for regional transit and in turn improve the financial outlook that is documented in this chapter.

Table 5-5: Potential Sources of Funds for Unfunded Operating Needs (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Additional Funding/Cost Savings to be identified	-	6.1	9.3	15.3	20.3	24.3	28.2	31.7	35.5	

5.2. Capital

5.2.1. Capital Sources of Funds

The capital sources of funds are separated between active and new capital projects. Active capital projects are in progress and use funds pledged in the latest Capital Improvement Plan (CIP) and grant applications to the state and/or the FTA. New projects are programmed but do not have secured funding yet. Both active projects and new capital projects are funded through a combination of federal funds (formula and discretionary), state funds, and local funds (primarily Advanced Capital Contribution or ACC). Note that the current capital program does not include CARES Act funding or regional dedicated funding approved by the General Assembly in 2020.

In **Table 5-6**, “federal funds” for active capital projects include both federal formula programs and federal discretionary programs as both are already pledged for active capital projects. For new capital projects, a distinction is made between federal formula funds and federal discretionary funds, the latter being included in “other funds”. Note that no discretionary funds are assumed outside of what is programmed in the latest CIP (adopted by the TDCHR in December 2019), in the last four years of the period. Other funds are covered in more detail in **Section 3.1.5**.

Table 5-6: Capital Sources of Funds Active and New Projects (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Active Capital Projects Sources of Funds										
Federal Funds	9.8	3.2	1.6	-	-	-	-	-	-	-
State Funds	14.2	1.7	2.1	1.8	0.6	-	-	-	-	-
Local Funds	0.1	0.0	0.1	0.1	0.0	-	-	-	-	-
ACC	0.9	0.0	0.5	-	-	-	-	-	-	-
Total Active Capital Projects Sources of Funds	24.9	5.0	4.3	1.9	0.6	-	-	-	-	-
New Capital Projects Sources of Funds										
Federal Formula Funds	7.0	5.4	4.8	5.2	6.5	7.3	10.5	11.3	11.4	10.7
State Funds	13.1	20.1	10.9	23.7	24.9	18.2	10.0	10.7	10.8	10.1
Other Funds (incl. discretionary)	14.4	12.5	5.7	8.5	10.1	0.3	-	-	-	-
ACC Funds	1.2	2.4	1.3	2.7	3.4	1.1	0.9	0.9	0.9	0.9
Total New Capital Projects Sources of Funds	35.6	40.5	22.7	40.2	44.8	26.8	21.3	22.8	23.1	21.7
Total Capital Sources of Funds	60.6	45.5	27.1	42.1	45.4	26.8	21.3	22.8	23.1	21.7

Federal Formula Funds

Federal capital funding sources include the following formula grant programs: Section 5307, Section 5337, and the Bus and Bus Facilities Program (Section 5339).

By FY 2030 the agency aims to reduce the amount of Section 5307 funds used for PM gradually such that the distribution would be: 25 percent for capital, ten percent for ADA, and 65 percent for PM.

By FY 2030 the agency aims to reduce the amount of Section 5337 funds used for PM gradually such that the distribution would be: 65.5% for capital and 34.5% for PM. HRT plans to dedicate unused Section 5337 funds of earlier years of the plan to support the greater needs of The Tide as the system ages starting in FY 2027, when most assets reach 15 years of usage and require significant rehabilitation or replacement. As such, the results assume that starting in FY 2027 HRT will begin to spend down the balance of Section 5337 funds that has accrued to support state of good repair (SGR) capital investments for The Tide. Section 5339 funds can only be used for capital expenses related to bus service.

State Funds

The amount of state capital funds varies annually depending on several factors such as the mix of projects (SGR, minor enhancement, or major expansion) as well as availability of federal and ACC to be leveraged against state funds. For FY 2021 – FY 2026, the state share of new projects is determined based on state funds programmed during the last CIP programming cycle. The weighted average state share of new capital projects during the first four years of the CIP period is used to plan for the state funding contribution during the last four years of the TSP. The average share of state funds based on the last CIP update is summarized in **Table 5-7**.

Table 5-7: State Funds for Capital Projects (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26
Total New Capital Projects Uses of Funds	35.6	42.5	24.7	42.2	46.8	27.0
State Funds	13.1	20.1	10.9	23.7	24.9	18.2
State Share of New Projects (%)	36.8%	47.4%	44.0%	56.2%	53.1%	67.3%

Local Funds

The local funds summarized in **Table 5-6** are previously committed local funds that are intended for specific projects. As a result, these funds can vary significantly from one year to the next.

ACC Funds

The six local jurisdictions served by HRT provide an ACC to support ongoing capital needs. This funding is largely used to match state and federal grants with the required local dollars. The ACC funding is presently set at two million dollars in new funding per year. The cumulative ACC funding surplus each year is summarized in **Table 5-8**.

Table 5-8: Cumulative ACC Funding Surplus (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Cumulative ACC Funding Surplus	5.9	5.5	5.7	4.9	3.5	4.4	5.6	6.7	7.8	8.9

Other Funds

Other funds include federal, state, and regional discretionary funds. As described previously, these results only include discretionary funding during the first six years of the TSP period. For the last four years of the TSP period, the results conservatively assume no additional discretionary funding; however, discretionary funding sources such as the Congestion Mitigation and Air Quality (CMAQ), the Surface Transportation Program (STP), and the Transportation Alternatives Program (TAP) are likely to provide additional funding to alleviate capital funding shortfalls during the last four years of the TSP period.

5.2.2. Capital Uses of Funds

Capital uses of funds are summarized in **Table 5-9**, separated by active capital projects and new capital projects. Active capital projects are in progress and use funds pledged in the latest CIP and grant applications to the state and/or the FTA, whereas new projects are programmed but do not have secured funding yet. New project information for the first six years of the TSP period was incorporated during the last CIP update cycle. The first four years of the CIP were used to estimate needs during the outer four years of the TSP period. Note that the results shown in **Table 5-9** reflect the fleet needs required to deliver the cost-constrained service plan contained in **Chapter 3**. This does not include fleet needs required to implement the full Regional Backbone services that are part of the Hampton Roads Regional Transit Program. Additional investments required to support that Program are described in **Chapter 6**.

Table 5-9: Capital Uses of Funds (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Active Capital Projects Uses of Funds	24.9	5.0	4.3	1.9	0.6	-	-	-	-	-
New Capital Projects Uses of Funds	35.6	42.5	24.7	42.2	46.8	27.0	41.5	42.8	44.1	45.4
Total Capital Uses of Funds	60.6	47.5	29.0	44.1	47.4	27.0	41.5	42.8	44.1	45.4

Competitive Demands on Funding

HRT has various capital needs that compete for and may exceed the limit of existing resources. This requires the agency to create a prioritization of capital projects.

5.2.3. Potential Sources of Funds for Unfunded Capital Needs

Table 5-10 summarizes HRT's unfunded capital needs. As with the unfunded operating needs, unfunded capital needs can be funded partly with dedicated funding and partly through CARES Act funds, and. For more detailed information on dedicated funding, see **Chapter 6**. Additionally, it is expected that unfunded capital needs will also be partly funded by discretionary grants at the federal, state, and regional level.

Note these results show unfunded needs during the first six years of the TSP. The TSP reflects updated information regarding federal formula allocation published by FTA since the last update to the CIP, as well as other budgetary changes that have occurred since. Unfunded needs during the CIP period will be addressed in the next update to the CIP in the fall of 2020, which will coincide with the next TSP update.

Table 5-10: Unfunded Capital Needs (YOE\$ Millions)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Additional Funding/Cost Savings to be identified	0.0	2.0	2.0	2.0	2.1	0.2	20.2	19.9	21.0	23.7

5.3. Reserves

DRPT commissioned a Financial Management Office Review (FMOR) in 2017-18 which provided an independent analysis and report on several challenges and opportunities facing HRT. With respect to reserve funds, it was noted that “HRT currently operates on a ‘zero balance’ budget basis and lacks the ability to manage cash flow and expenses through an operating fund, as well as reserve funds such as a cost contingency (emergency reserve) fund and a dedicated capital improvement fund” and “HRT’s use of a line of credit to manage cash flow is not consistent with the strategies employed by other transit agencies.” The FMOR report recommended to “consider establishing and maintaining an operating fund as part of the budget process.” HRT management concurred with this observation and committed to work with the Commission to determine options for establishing and maintaining such funds. In 1998-1999, the financial planning and formal agreement between the cities of Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, Suffolk, and Virginia Beach and the Peninsula Transportation District Commission and Tidewater Transportation District Commission (resulting in the formation of HRT), called for the establishment and regular funding of two funds; a Working Capital Reserve Fund and a Capital Improvement Reserve.