

CHAPTER 5

Financial Plan

FY 2022 - FY 2031



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5. Financial Plan & Outlook

This financial plan covers Fiscal Years (FY) 2022 to 2031, 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.” 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. This updated chapter, compared to the Transit Strategic Plan adopted in June 2020, includes the Hampton Roads Regional Transit Fund (HRRTF) established by the Virginia General Assembly in addition to the agency’s budget.

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 any potential 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, regional funds (HRRTF), and local funds.

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

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Fare Revenues	8.4	9.9	10.8	11.6	12.6	13.6	14.8	15.4	16.1	16.8
Non-Operating Revenues	3.5	3.5	3.5	3.6	3.6	3.7	3.7	3.7	3.8	3.8
Federal Funds (PM, ADA, CCC)	-	17.2	17.0	16.6	16.1	15.7	15.7	15.8	15.9	16.0
Non-Traditional Federal Funds (CARES Act, CRRSAA)	25.9	7.8	-	-	-	-	-	-	-	-
State Funds	20.0	20.2	20.3	20.5	20.7	20.9	21.1	21.3	21.5	21.7
HRRTF	11.2	18.5	28.2	33.5	33.8	35.0	35.9	37.0	39.1	39.5
Local Funds	44.7	45.8	47.0	48.1	49.3	50.6	51.8	53.1	54.5	55.8
Total Operating Sources of Funds	113.7	122.9	126.9	133.9	136.1	139.4	143.1	146.5	150.8	153.7

Note: numbers may not add due to rounding.

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 2027 and a planned increase of \$0.25 for paratransit in FY 2028 (to \$3.75). Note that HRT may decide to postpone future fare increases based on evolving conditions of the agency.

These numbers reflect a full recovery from COVID-19 by FY 2027 and slow growth afterwards. 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 Elizabeth River Crossing (ERC) operating assistance, advertising revenue, and non-transportation revenue.

ERC operating assistance is expected to grow with the consumer price index (CPI) annually (1.6%). CPI was determined based on the FY 2009 – FY 2020 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.

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 preventive 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. Non-traditional Federal Funds include federal aid provided by the CARES Act and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA).

State Sources of Funds

State sources of funds include state operating assistance as well as HOT Lane revenues. The plan assumes that HRT's state operating assistance will be \$19.9 million during the first year of the TSP period and will grow by one percent annually from FY 2023 to FY 2031.

Regional Sources of Funds

The plan assumes that HRRTF revenues will accrue to HRT following the latest forecast by the Virginia Department of Taxation at the time this chapter was prepared, extended to FY 2031 (**Table 5-2**).

Table 5-2: HRRTF Revenues (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
State Recordation Tax	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Regional Transportation Improvement Fee (Grantor's tax)	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Transient Occupancy Tax	7.4	7.7	8.1	8.5	8.6	8.6	8.6	8.7	8.8	8.9
Investment Revenues	0.0	0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Total HRRTF	32.3	32.7	33.2	33.6	33.8	33.9	33.9	33.9	34.0	34.1

Note: numbers may not add due to rounding.

Local Sources of Funds

HRT receives local operating assistance from its six member cities. Each city's 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.

Local operating assistance is assumed to grow 2.5% per year from FY 2023 to FY 2031.

5.1.2. Operating Uses of Funds

Table 5-3 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. 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 5-3: Operating Uses of Funds by Mode (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Bus Fixed Route Operating Expenses	70.5	76.0	80.7	84.7	89.2	93.5	97.9	102.7	107.8	112.6
Bus Fixed Guideway Operating Expenses (MAX)	4.6	5.2	5.5	5.7	5.9	6.2	6.4	6.6	6.9	7.1
Regional Backbone Operating Expenses (15-min service / PCS)	2.3	6.5	17.6	24.8	26.7	27.6	28.6	29.6	30.7	31.7
LRT Operating Expenses	11.2	11.7	12.1	12.5	12.9	13.3	13.8	14.2	14.7	15.1
Paratransit Operating Expenses	15.5	16.8	17.4	18.1	18.8	19.5	20.3	21.1	21.9	22.8
Ferry Operating Expenses	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.9
Additional COVID-19 Expenses	3.0	-	-	-	-	-	-	-	-	-
Additional RTS Expenses (above cost/hour)	4.8	7.6	7.0	5.8	4.1	4.2	4.3	4.4	5.3	4.7
Total Operating Uses of Funds	113.7	125.4	142.0	153.2	159.3	166.1	173.1	180.4	189.1	195.9

Note: numbers may not add due to rounding.

Regional Priorities and Policies

One of HRT's main priorities during the TSP period is to implement a regional backbone of bus service connecting cities with high-frequency service on 13 routes. The current cost constrained plan in **Chapter 3** lays out service frequencies for all bus routes in the HRT service network. **Chapter 6** lays out the service frequencies for the routes funded by HRRTF funds. **Chapter 3** also provides the information for those backbone routes that will gradually, post FY25, introduce midday 15-minute service frequencies for the routes 8, 15, 21 and 101.

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 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 5-4**, 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 2023. 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. Year to year, HRT actively manages transit operations and annual budgets to ensure revenues and expenses are balanced. Not included in this TSP update is additional funding that may accrue to HRT as a result of the American Rescue Plan Act, which includes \$30.5 billion for federal transit-related programs nationwide. HRT will continue to utilize such COVID-related funding consistent with the agency's multi-year strategy as outlined in **Chapter 1**.

Table 5-4: Potential Sources of Funds for Unfunded Operating Needs (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Additional Funding / Cost Savings to be identified	-	2.5	15.1	19.3	23.2	26.6	30.0	33.9	38.3	42.3

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). For projects related to the regional Program in **Chapter 6**, HRRTF funds are also pledged for capital uses.

In **Table 5-5** below, “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 HRT’s current CIP (amended January 2021), in the last four years of the period. Other funds are covered in more detail in **Section 3.1.5**.

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

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Federal Funds	20.8	5.2	0.2	0.1	-	-	-	-	-	-
State Funds	21.0	12.6	0.2	0.1	-	-	-	-	-	-
HRRTF	-	-	-	-	-	-	-	-	-	-
Local Funds (ACC)	6.5	0.8	0.0	0.0	-	-	-	-	-	-
Total Active Capital Projects Sources of Funds	48.3	18.6	0.4	0.2	-	-	-	-	-	-
Federal Formula Funds	22.0	16.7	4.2	5.3	4.6	6.4	7.3	7.8	9.9	9.0
State Funds	33.0	34.7	11.9	12.9	11.0	15.7	16.8	13.1	19.1	18.4
HRRTF	20.0	17.3	7.1	3.6	-	0.3	0.1	0.6	0.9	0.4
Other Funds (incl. discretionary)	10.1	12.4	6.0	5.2	3.5	6.2	0.6	0.2	-	0.2
ACC Funds	2.1	1.9	1.9	1.1	1.1	1.5	1.3	1.1	1.5	1.3
Total New Capital Projects Sources of Funds	87.1	83.0	31.0	28.1	20.2	30.1	26.2	22.8	31.4	29.3
Total Capital Sources of Funds	135.4	101.6	31.4	28.3	20.2	30.1	26.2	22.8	31.4	29.3

Note: numbers may not add due to rounding.

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 2031 the agency aims to reduce the amount of Section 5307 funds used for PM gradually such that the distribution would be: 25.0% for capital, 10.0% for ADA, and 65.0% for PM.

By FY 2031 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.

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 (State of Good Repair, Minor Enhancement, or Major Expansion) as well as availability of federal and local funding to be leveraged with state funds. The planned state funds are summarized in **Table 5-6** below.

Table 5-6: State Funds for Capital Projects (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Total New Capital Projects Uses of Funds	87.1	83.0	31.0	28.1	20.2	30.1	26.2	22.8	31.4	29.3
State Funds	33.0	34.7	11.9	12.9	11.0	15.7	16.8	13.1	19.1	18.4
State Share of New Projects (%)	37.8	41.8	38.3	46.0	54.4	52.2	64.2	57.4	60.9	62.8

HRRTF Funds

HRRTF funds are used to support capital projects underlying the implementation of the regional Program documented in Chapter 6, such as the procurement of new buses, building of new customer amenities, and a new Southside bus division. HRT and HRTAC, which administers HRRTF funds, will coordinate on the effective draw down and use of HRRTF funds, including any opportunities related to debt financing.

Local Funds

The local funds summarized above in **Table 5-5** are provided by the six local jurisdictions served by HRT to support ongoing capital needs. This funding is largely used to match state and federal grants with the required local dollars. Local funds may also include ad-hoc local funding sources such as the Virginia Beach Refund.

Other Funds

Other funds include federal, state, and regional discretionary funds such as the Congestion Mitigation and Air Quality (CMAQ), the Surface Transportation Program (STP), and the Transportation Alternatives Program (TAP). Additional competitive grants at the federal level could help support HRT's capital funding needs including for ongoing state-of-good-repair. As of the time of this TSP update, Congress has indicated that some spending caps may be lifted and discretionary (federal earmarks) spending will be included in annual appropriations going forward. This is in addition to funding opportunities associated with new transportation infrastructure legislation and federal transportation reauthorization legislation. HRT intends to pursue federal funding opportunities in all areas for which the agency may be eligible and competitive.

5.2.2. Capital Uses of Funds

Capital uses of funds are summarized in **Table 5-7**, separated by active capital projects and new capital projects. Active capital projects are in progress and use funds within the overall constraints of the current CIP and associated 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 TSP period was incorporated during the last CIP update cycle. The detail on additional investments required to support the RTS are described in **Chapter 6**.

Table 5-7: Capital Uses of Funds (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Active Capital Projects Uses of Funds	48.3	18.6	0.4	0.2	-	-	-	-	-	-
New Capital Projects Uses of Funds	87.1	83.0	31.0	28.1	20.2	30.1	26.2	22.8	31.4	29.3
Total Capital Uses of Funds	135.4	101.6	31.4	28.3	20.2	30.1	26.2	22.8	31.4	29.3

Competitive Demands on Funding

The Agency 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 5-8 below summarizes HRT’s current unfunded capital needs. As depicted, this year’s annual TSP update does not identify any unfunded capital needs.

Table 5-8: Unfunded Capital Needs (YOE\$ Millions)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Additional Funding/Cost Savings to be identified	-	-	-	-	-	-	-	-	-	-

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.