

RVT Financial Plan: FY 2017 – FY 2022

A principal challenge facing RVT over the next several years will be to maintain the financial capacity required to fund the continued provision of high quality transit service to the local communities RVT presently serves and the planning for fixed route service to Clinton County in 2018. Developing a plan to assure this financial viability over the next few years is further challenged by substantial uncertainties concerning both the expense side and especially the revenue side of the financial equation. This financial plan, then, will attempt to identify realistic and prudent assumptions regarding such uncertainties and then develop revenue and expense projections, determine likely deficit financial requirements, and develop a financial management strategy for RVT through Fiscal 2022. This Financial Plan does not take into consideration service to Clinton County which may be initiated in CY 2018 utilizing PennDOT Demonstration grant funding at 85% of the operating cost for the first three years if established performance standards are met.

Revenue and Expense Projections

RVT's operating expense depends primarily on the number of vehicle hours and miles operated in addition to the cost of maintaining fixed assets and the administrative support cost of managing the system. Vehicle miles operated on RVT's fixed route operating system has been quite stable over the past several years, with minor revisions along the way involving both service cuts and expansions compensating for each other out over the long run. Thus, although RVT plans to conduct a comprehensive service plan update next year, this plan assumes continuation of current service levels over the next three years, with some modest expansion in service.

Figure 1 presents a fully allocated cost model for Fiscal 2017, which allocates all audited expenses for that year to either vehicle miles, vehicle hours, or fixed capacity as represented by the number of peak hour vehicles in service on weekdays. Total operating expense for Fiscal 2017 was \$7,057,598, which factors down to an average variable cost of \$54.02 per vehicle hour operated and \$1.56 per vehicle mile operated, in addition to \$2,198.67 fixed cost per peak hour vehicle per week. The fixed cost per peak hour vehicle per week is computed as total fixed costs of \$2,629,615 divided by 23 vehicles operating at peak hours over 52 weeks in the year. It should be noted that these cost factors pertain only to RVT's regular fixed route transit system. In addition, the direct cost of providing the ADA paratransit service, RVT Plus, which is partially operated through a subcontract with STEP, Inc., was \$8,750. Thus, RVT's total operating expense for Fiscal 2017 was \$7,066,348.

Figure 1

**FULLY ALLOCATED COST MODEL
FISCAL YEAR 2017 - AUDIT**

| <u>Cost Function</u> | <u>Vehicle Revenue Hours (56,965)</u> | <u>Vehicle Revenue Miles (864,129)</u> | <u>Peak Hour Vehicle (23 x 52)</u> | <u>Total</u> |
|--|---|--|--|--------------------|
| LABOR | | | | |
| Operators' Salary & Wages | \$1,801,340 | | | \$1,801,340 |
| Supervisors' Salary | \$ 317,598 | | | \$ 317,598 |
| Maintenance Salary & Wages | | \$ 444,923 | | \$ 444,923 |
| Administrative Salary & Wages | | | \$ 593,635 | \$ 593,635 |
| FRINGE BENEFITS | | | | |
| Operators & Supervision | \$ 958,476 | | | \$ 958,476 |
| Maintenance | | \$201,349 | | \$ 201,349 |
| Administrative | | | \$ 171,506 | \$ 171,506 |
| SERVICES | | | | |
| | | | \$ 800,374 | \$ 800,374 |
| MATERIALS & SUPPLIES | | | | |
| Fuel & Lubricants | | \$ 398,051 | | \$ 398,051 |
| Tires & Tubes | | \$ 64,643 | | \$ 64,643 |
| Other Materials & Supplies | | | \$ 511,464 | \$ 511,464 |
| UTILITIES | | | | |
| | | \$ 69,324 | \$ 34,662 | \$ 103,986 |
| CASUALTY & LIABILITY | | | | |
| | | \$ 172,279 | | \$ 172,279 |
| MISCELLANEOUS EXPENSE | | | | |
| | | | \$ 517,974 | \$ 517,974 |
| TOTAL | \$3,077,414 | \$1,350,569 | \$2,629,615 | \$7,057,598 |
| Cost Factors | \$ 54.02 | \$1.56 | \$2,198.67* | |
| ADA COMPLEMENTARY PARATRANSIT SERVICE | | | | |
| | | | | \$ 8,750 |
| SYSTEM TOTAL OPERATING EXPENSE | | | | |
| | | | | \$7,066,348 |

* Fixed Cost Per Peak Hour Vehicle Per Week

Figure 2 shows revenue and expense estimates for Fiscal 2018 and projections for Fiscal 2019 through 2022, as well as, actual figures for the past four years beginning with Fiscal 2014. The expense projections are based on the following general assumptions:

- Modest increase in service levels
- 2.5% annual increase in wages
- 4% annual increase in benefits
- 3% increase in annual insurance costs
- 5% increase in utility costs
- 2% increase in fuel costs

Figure 2 Revenue and Expense Projections (000's)

| | Fiscal Year | Total Expense | Total Revenue | Net Cost | % Cost Recovery |
|------------|-------------|---------------|---------------|----------|-----------------|
| Actual: | 2014 | \$6,307 | \$1,143 | \$5,164 | 18.1% |
| | 2015 | \$6,672 | \$1,105 | \$5,567 | 16.6% |
| | 2016 | \$6,845 | \$ 962 | \$5,883 | 14.1% |
| | 2017 | \$7,066 | \$1,071 | \$5,995 | 15.2% |
| Estimated: | 2018 | \$7,450 | \$1,089 | \$6,361 | 14.6% |
| Projected: | 2019 | \$7,661 | \$1,110 | \$6,551 | 14.5% |
| | 2020 | \$7,883 | \$1,135 | \$6,748 | 14.4% |
| | 2021 | \$8,105 | \$1,155 | \$6,950 | 14.3% |
| | 2022 | \$8,333 | \$1,175 | \$7,158 | 14.1% |

Thus, total operating expense is projected to increase from an estimated \$7,450,000 in Fiscal 2018 to \$8,333,000 by Fiscal 2022. Thus, RVT's operating expense is projected to increase by less than 3% per year over the next four years due to combination of a modest increase in service levels, with 23 vehicles used in peak periods, and cost increases in essential expense items. Also, RVT's fleet will continue to be converted from diesel fuel to compressed natural gas (CNG) which will result in lower fuel cost in the future years.

Total revenue is projected to increase at a less moderate rate, due to stable ridership and incremental fare increases. It should be understood, however, that these revenue figures substantially understate actual earned revenue inasmuch as RVT is reimbursed by the Commonwealth of Pennsylvania for free fare senior citizen trips it carries as part of a larger single package of state assistance. In any case, RVT's stated revenue is projected to increase from \$1,089,000 in Fiscal 2018 to \$1,175,000 by Fiscal 2022, an average gain of 2% per year over the next four years. RVT will also continue its policy of implementing incremental increases in selective fare categories as needed to achieve these revenue targets.

The net effect of these expense and revenue projections would be a slight increase in net operating cost in Fiscal 2018, up to \$6,360,609 as compared with \$5,995,879 in 2017, followed by a widening net cost or operating deficit over the next few years, topping \$7,158,000 in Fiscal 2022. Thus, RVT's percent cost recovery ratio is projected to decrease incrementally to 14.6% in 2018 and continue slightly downward towards 14.1% in Fiscal 2019 through Fiscal 2022, so RVT's cost recovery ratio is actually projected to remain stable over the next few years.

Deficit Financing

The implications of these revenue and expense projections in terms of RVT's overall financial viability are shown in Figure 3. Local operating funds from the City of Williamsport and RVT's other local government partners was \$350,369 in Fiscal 2017. As per a mandate enacted in Act 44 of 2007, local transit agencies in Pennsylvania are required to increase their local contributions to fund operating deficits by 5% per year until their local shares reach 15% of state funding. Therefore, contributions from the local jurisdictions participating in the RVT transit system will continue to increase by 5% per year from \$368,000 in Fiscal 2018 to \$414,000 by Fiscal 2022. This will be achieved by increasing the contribution rates of all the participating local jurisdictions each year. A critical issue in this regard was the restoration of Lycoming County Government's commitment of funds to support RVT's transit operations on an ongoing basis.

Base Federal funding for RVT stands at \$900,000 per year, but RVT has also been awarded additional funding from the Small Transit Intensive Cities apportionments by virtue of exceeding all six performance criteria on which this program is based. Thus, total Federal funding for RVT amounted to \$1,826,516 in Fiscal 2017 and anticipates receiving a total of \$1.8 - \$2.0 million per fiscal year beginning in Fiscal 2018 through Fiscal 2022. Because the projections discussed above assume stable service levels along with further ridership increases over the next four years, RVT will be striving to exceed the performance targets in the near term future and anticipates continuing to receive Federal funding at these levels over the next four fiscal years. These funds can be allocated to operating assistance, as well as, to capital projects. Given the need for continued capital programming, RVT plans to use \$1.8 - \$2.0 million of this expected federal apportionment for operating expenses and reserve the balance, if any, for planning and capital requirements. If RVT fails to hit the performance targets in the next four years, or receive less than \$1.8 - \$2.0 million in federal funding for other reasons, those monies will have to be allocated to cover the projected operating deficits first, leaving little federal funding available for capital programming.

Operating funds from Pennsylvania State Government (PennDOT) amounted to \$4,045,240 in Fiscal 2017 and increased to \$4,192,438 in Fiscal 2018. In order to balance the operating budget, RVT projects needing \$4.32 in operating funds from PennDOT in Fiscal 2019 and will need to have this amount increase from the Commonwealth to a projected \$4.72 million in Fiscal 2022.

RVT has completed a very aggressive capital program over the past several years, recently constructing a \$12 million Trade & Transit Centre II Project in 2016. RVT will continue our fleet replacement program, focusing now on the acquisition of CNG transit vehicles. Substantial funding has been secured for these projects, but additional capital is still needed to move forward on them. RVT continues to apply for discretionary capital funding; both at the federal and state level, to meet these additional needs and completing these planned capital projects over the next four fiscal years. However, if either federal or state operating assistance falls below the projections discussed above, this will leave less funding available for these planned capital projects and further delay their completion.

Financial Management Strategy

Given limited resources and the likelihood of continued cost increases, RVT will require a sound financial strategy based on clear priorities and an understanding of the desired relationships among various system parameters including service levels, expense, ridership, fares, revenue, external funding, and local subsidies. Clearly, the top priority is to preserve the ability to provide high quality fixed route public transportation service to the Williamsport urbanized area and surrounding portions of Lycoming County while keeping the costs to local governments in the area at reasonable levels. As discussed in several Performance Reports and Plan Updates, RVT's overall strategy for maintaining financial viability in the face of growing operating deficits consists of the following principles:

- Holding the line on costs wherever possible, including continuing to increase the use of compressed natural gas (CNG) to reduce the cost of fuel,
- Seeking ways to attract additional ridership and enhance earned revenue,
- Leveraging state and federal funds to the greatest extent,
- Raising fares incrementally so as to minimize ridership disruption, and
- Increasing the local commitment to preserve high quality public transportation in RVT's service area.

The first line of defense, holding costs down to the lowest reasonable levels, means first of all the continued strict managerial control RVT has exerted effectively over the past several years so as to hold real cost increases down to essential elements dictated by service requirements or reasonable "cost of living" adjustments in wages and benefits and unavoidable price increases for utilities, materials and supplies, insurance, and contract services. Moreover, current operations must continue to be scrutinized on a regular basis to identify potential cost savings through selective service trimming where ridership is weak. Beginning in Fiscal 2013, RVT began to purchase compressed natural gas (CNG) buses and has continued to purchase CNG vehicles, which will serve to reduce fuel usage and costs. Along these lines, it should be mentioned that RVT is

planning to continue to purchase CNG transit vehicles in the future. In 2018, RVT will be receiving nine more CNG vehicles, bringing the total number of CNG buses to 19, which will make the fleet over 63% CNG. RVT is planning on all future bus purchases and support vehicles to be powered by CNG.

RVT must also continue to search for opportunities to enhance ridership and revenue through route realignments or other changes in the service plan, as discussed in previous Performance Report and Plan Updates. Aggressive marketing tailored to the needs of specific market segments such as students, senior citizens, or the "transit dependent" population coming into the service area – through service adjustments as well as advertising and promotional campaigns – will continue to promote ridership retention and growth. Thus, one of the key objectives in RVT's Strategic Plan is to develop a comprehensive marketing program. In part, this will entail keeping an eye out for possible entrepreneurial opportunities for expanding service and ridership base through cooperative arrangements with other organizations or governmental units. In Fiscal 2012, at the request of PennDOT, RVT began to management the Endless Mountains Transportation Authority (EMTA) and has worked on a transportation committee to look at providing services to the south of Lycoming County.

RVT traditionally has one of the lowest transit fare structures in Pennsylvania in order to assure accessible and affordable service to those who need it most. However, it must also recognize that fare increases will be necessary in order to keep pace with increasing operating costs. The goal is to raise fares when needed with only minimal disruption of ridership, and thus RVT has moved to a policy of more frequent, incremental fare increases in selected categories rather than more dramatic across-the-board fare hikes which have tended to drive more patrons away from the system. RVT has implemented small fare increases in our EZ Fares every other year and other similar selective fare increases will be instituted as needed in the future.

Obviously, RVT will also have to continue taking advantage of available state and federal funding to the fullest extent possible. In the short run, this means utilizing substantial amounts to fund operating deficits, as discussed above, although in the long run it is equally important to maintain adequate capital reserves for fleet replacement and other capital projects.

Finally, regarding the last line of defense, it is clear from the analysis presented above that financial support on the part of the local governments and other private sector "partners" will have to increase over time. Contributions from the municipalities participating in the system were last increased in Fiscal 2004, but it will be necessary to raise the local share again in the near and mid-term future as required by PennDOT. In addition, it will be imperative for RVT to restore its commitment of funds to support RVT's transit operations on an ongoing basis. In Fiscal 2014, RVT was able to secure a long-term commitment for substantial funding from the County, keyed to the level of township and municipal funding on a matching basis, as justified by the fact that the River Valley Transit system and the complementary ADA paratransit service now provide essential public services to all population centers in Lycoming County.