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May 14, 2020

TO: HRPDC/HRTPO Boards

BY: Robert A. Crum, Jr., Executive Director
Sheila S. Wilson, Chief Financial Officer

RE: Proposed FY 2021 HRPDC/HRTPO Budget

The HRPDC/HRTPO Personnel and Budget Committee met electronically via conference call on Thursday, May 7, 2020 for the purposes of discussing the proposed HRPDC/HRTPO draft budget for FY21. The budget documents reviewed by the Personnel and Budget Committee are provided in the following packet. At its meeting on May 7, the Personnel and Budget Committee took the following action:

“The HRPDC/HRTPO Personnel and Budget Committee recommends approval of the FY21 Budget by the HRPDC and HRTPO Boards, with the condition that the budget be revisited by both Boards at their October 15, 2020 meetings.”

The following memorandum provides background information on the proposed FY21 budget for the HRPDC and HRTPO.

BUDGET APPROACH

The COVID-19 pandemic has created significant financial uncertainties for all levels of government, including regional organizations such as the HRPDC and HRTPO. The primary sources of funding that support the operations of the HRPDC and HRTPO are provided by federal, state and local funding sources. Business closures, stay at home orders and social distancing requirements have resulted in significant impacts to revenues at all levels of government during the last quarter of FY 20, and expectations are that these declining revenue trends may continue well into FY 21 creating significant unknowns pertaining to revenue expectations for the HRPDC and HRTPO.

Due to the unknowns mentioned above, the Personnel and Budget Committee and staff are recommending that the HRPDC/HRTPO Boards consider the approval of the FY 21 Budget, with the condition that this budget will be reconsidered by both Boards at their October 15, 2020 meetings. At that time, more information will be available on the economic impacts of the current pandemic crisis and a more accurate forecast of anticipated revenues and appropriate expenditures can be identified.

This budgeting approach seems to be the most prudent course for the Organization to consider since the HRPDC/HRTPO is a standalone organization, and funds its operations and cash flow with its available financial resources and assets. A significant portion of the Organization’s expenses are

provided by state and federal grants. As a result, the Organization operates on a reimbursement basis. Expenses are incurred and billed on an hourly basis including related expenses to state and federal grant programs, with invoices submitted at the end of each quarter. The Organization's fund balance is used to sustain cash flow until these reimbursements are received from state and federal funding sources.

Due to the potential for the COVID-19 crisis to impact federal, state or local funding sources, management is proposing the following proactive measures in the FY 21 budget:

- No merit or cost of living increases have been included for HRPDC/HRTPO staff in the proposed budget.
- Expenses for staff professional development activities such as conferences, training, travel and seminars have been reduced significantly.
- All purchases such as furniture, computers and software which are not absolutely critical at this time have been deferred and removed from the proposed budget.
- Significant reductions have also been made to planned hospitality expenses (food for meetings, etc.) to reflect the transition from in-person to electronic meetings.
- Significant reductions have also been made to costs related to printing of HRPDC/HRTPO plans, reports and studies to reflect a planned transition from printed to electronic documents.
- A reorganization of the Agency's IT management services has occurred.

PASS-THROUGH AND OPERATING

HRPDC/HRTPO revenues and expenses are categorized into two categories: Pass-through and Operating.

Pass-through revenues and expenses are resources in the Organization's budget that pay for services or items identified as needs for the region's localities. These Pass-through revenues do not remain in the Organization's account nor do they contribute towards the operating costs of the Organization. The HRPDC is called upon by its member localities to serve as the fiscal agent for several regional projects, and the costs related to these projects are categorized as Pass-through. Examples of these projects include but are not limited to the following:

- Regional Connectors Study - revenues are collected from HRTAC based on project costs and paid to a professional consultant team
- Metropolitan Medical Response System (MMRS) – monies are collected by the HRPDC and used to purchase emergency response equipment on behalf of the region's localities
- Broadband Authority – in previous years, the six Southside localities have pooled monies at the HRPDC to advance the design of the fiber ring initiative
- Homeland Security/Urban Areas Security Initiative (UASI) – the HRPDC serves as the applicant and fiscal agent to apply for and receive monies for regional homeland security measures – investment decisions are made by regional committees and these monies are used by the HRPDC to acquire these resources
- United States Geological Survey (USGS) – the HRPDC serves as fiscal agent for this monitoring effort

- Water Quality Assessment – the HRPDC serves as the fiscal agent for this program
- askHRgreen – the HRPDC serves as the fiscal agent for these programs – regional committees make decisions on environmental education products that are purchased through the HRPDC
- Housing – the HRPDC administers a first-time homebuyers assistance program on behalf of several local governments and passes monies through its budget to assist with homebuyer closing costs

As the number and complexity of regional projects managed by the HRPDC on behalf of its member jurisdictions increases, the percent of the Organization's expenses that fall within the Pass-through category increases as well. The proposed FY 21 budget estimates approximately 65% of the Organization's expenses will be in the Pass-through, Deferred and Contingency categories.

Operating expenses are those costs that are necessary to support the operations of the HRPDC and HRTPO. The majority of these operating expenses are related to Personnel Costs (salaries, benefits, insurance, etc.). The draft FY 21 budget estimates that 86% of the Organization's anticipated operating costs will be personnel related in the upcoming fiscal year. The remaining operating expenses include operations and maintenance of the Regional Building, office supplies, IT management, computer hardware and software, furniture/equipment, staff training and professional development, costs associated with hosting meetings at the HRPDC/HRTPO and other support costs.

OVERVIEW OF BUDGET INFORMATION

To assist Board members with their review of the proposed Budget, a series of tables and graphics are attached for review. A brief summary of the financial information included in these attachments is provided below:

HRPDC/HRTPO Historical Budget Trend

This table provides an historical budget trend for HRPDC/HRTPO revenues and expenditures from FY 17 to the FY 21 draft budget. The Draft FY 21 budget shows revenues from four main sources:

Federal: \$3,344,827

The majority of these revenues are PL or Section 5303 dollars, which are used to support the HRTPO's federally mandated transportation planning program. In addition, the HRPDC receives federal dollars for housing, water resource management and emergency management purposes.

State: \$505,891

These funds include State Support to PDCs which is provided through the Department of Housing and Community Development. Also included in this amount is state funding dedicated to transportation planning purposes.

Local Member Contributions: \$2,430,999

These operating revenues are provided by the 17 HRPDC member localities. Member localities provide \$1,383,287 through their local contributions of \$0.80 per capita. An additional \$1,047,712 is dedicated to specific program areas by localities on a voluntary basis

to support the operations of these programs, while other locality funds support Pass-through expenses.

Total expenditures are estimated at \$16,327,474 in the draft FY 21 Budget. However, most of these expenditures are either Pass-through, Deferred Revenues or Contingencies.

The Operating Budget for the HRPDC/HRTPO for FY 21 is projected to be \$5,681,080. This represents a \$187,398 decrease from the FY 20 budget. Cost reductions in areas such as personnel costs (no wage increase for staff) professional development, printing, hospitality, web site development, computer hardware and software, automobile purchases and building investments resulted in this decreased operating budget. This decrease occurred despite the increases the Organization experienced with its Virginia Retirement System and health insurance rates. The proposed operating budget for the HRPDC/HRTPO in the FY 21 budget is at its lowest level since the FY 17 budget year.

HRPDC/HRTPO Revenue Sources

A bar chart is provided illustrating the Organization's Revenue Sources each year between FY 17 and FY 21. These revenue sources are categories such as Pass-through and Deferred, Federal, State, Local and Other.

HRPDC/HRTPO Expenditure Sources

A bar chart is provided illustrating the Organization's Expenditures for each year between FY 17 and FY 21. These expenditures are categorized as Pass-through, Personnel, Standard Contracts, Special Contracts and General Operational.

HRPDC/HRTPO Summary Budget Comparison

This handout provides a comparison between the FY 20 and FY 21 Budgets. A few items of note:

- The operating budget for the HRPDC/HRTPO shows a decrease of \$187,398 between FY 20 and FY 21.
- The HRPDC provides fiscal management, human resource management, building services and other planning, administration and support services to both HRTAC and HRMFFA. These services are reflected in the revenue anticipated from these organizations in the upcoming fiscal year.

Fund Balance Report

This report provides the Organization's Fund Balance information for FY 19, and the estimated Fund Balance for FY 20. While the Organization has a total fund balance of \$6,161,805, most of this fund balance is designated, included in reserves or dedicated to GASB 45 liabilities. The Organization's available fund balance in FY2020 is estimated at \$2,259,185. This money is used to support the cash flow of the Organization while it awaits reimbursement of expenses through grant programs, and the arrival of other revenues such as the quarterly payment of locality dues. As information, the

Organization typically spends between \$750,000 and \$800,000 per month in operating and Pass-through expenses.

Member Dues and State Allocation Trends

This handout provides trends in Per Capita Member Dues and State Allocations to the HRPDC between 1997 and 2021. The per capita member dues rate was decreased from \$0.82 to \$0.80 per capita in 2013 to reflect the recession environment, and has remained at that reduced rate. The State Allocation has remained at \$151,943 since 2012, and is less in 2021 than it was in 1997.

From an operational standpoint, the per capita member dues and state allocation illustrated on this handout are the only discretionary monies that the HRPDC receives that are not dedicated to a specific program area. These monies are also used to provide local match to grant programs. As these revenues have flattened, and in fact decreased, since 2010, it presents the HRPDC difficulty in its attempts to be nimble and respond to locality needs. Most of staff is on a billable hour basis, with their time allocated to grant supported tasks. The only general time available for allocation to special projects that arise during a budget year is that of the Executive Director and Deputy Executive Director.

HRPDC Local Jurisdiction Contributions

This table shows the amount of funding each of the 17 localities provides to the HRPDC as proposed in the FY 21 budget. The table reflects each locality's population, its \$0.80 per capita contribution and the amount each locality contributes to specific program areas within the HRPDC.

FY21 Operating Revenue Budget

This pie chart provides an illustration of operating revenue sources expected for the FY 21 budget year.

FY21 Operating Expenditure

The attached pie chart illustrates the share of the Organization's budget allocated to each program area.

HRPDC/HRTPO Reserves

This table provides the audited reserves for the Organization by category on June 30, 2019.

CONSIDERATIONS FOR FUTURE BUDGET YEARS

There are several items not included in the proposed FY 21 budget that must be considered in future years. Most of these anticipated costs relate to the maintenance and operation of the Regional Building. The Regional Building was constructed in the late 1980s, and many of its components are approaching their anticipated life expectancy and must be addressed over the next two to five years. Other organizational needs relate to continued technology enhancements that will be necessary to

support the Organization's work and human resource issues to keep the Organization competitive in its effort to retain a talented work force.

The following list of items are not included in the proposed budget and will need to be considered in future budget years:

Regional Building/Property

Exterior Building Maintenance/Sealing	\$ 65,000
Alarm System for Fire and Smoke	\$ 50,000
Skylights – replacement	\$ 35,000
Parking Lot Repairs/Replacement	\$ 45,000
Carpet Replacement	\$ 75,000
ADA Compliance – Doors to Board Room	\$ 20,000
Safety Improvements	TBD

Technology

Web Site Update/Redesign	\$100,000
Information Monitors	\$ 20,000
Deferred Computer Replacement/Modernization	TBD

Other Equipment

Agency Vehicle	\$ 32,000
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Personnel

Trust Fund for Retirement Liabilities	\$ 30,000 (reoccurring expense)
Legislative Affairs/Government Relations Position	TBD
Regional Planner Position	TBD
Wage Plan to Address Compression	TBD

ACTION REQUESTED FROM HRPDC and HRTPO Boards

The Personnel and Budget Committee recommends that the HRPDC and HRTPO Boards consider the following action:

“The HRPDC/HRTPO Boards hereby approve FY21 Budget, with the condition that the budget be revisited by both Boards at their October 15, 2020 meetings.”