

October 18, 1996

Introduced By:

GREG NICKELS

MAGGI FIMIA

421q2

Proposed No.:

96-903

MOTION NO. **10038**

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A MOTION approving 1997 public transportation (transit) financial policies

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WHEREAS, the King County council approved motion 9427 requiring an annual review of the transit program's financial policies, and

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WHEREAS, the King County executive has forwarded amended policies, and

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WHEREAS, the regional transit committee shall review and make a recommendation on transit financial policies to the King County council, and

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WHEREAS, the regional transit committee has reviewed the transit financial policies;

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NOW, THEREFORE, BE IT MOVED by the Council of King County:

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The public transportation financial policies, substantially in the form attached, are hereby approved.

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PASSED by a vote of 11 to 0 this 23rd day of December, 1996.

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KING COUNTY COUNCIL

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KING COUNTY, WASHINGTON

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Kent Pullen

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ATTEST:

Jane Hogue
CHAIR

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Gerald A. Petan
Clerk of the Council

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Attachments: 1997 Transit Program Financial Policies

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1997 Transit Program Financial Policies

1. **Fund Structure.** The Transit Program will consist of three Sub-Funds: Transit Operating, Revenue Fleet Replacement, and Transit Capital. The Revenue Fleet Replacement Sub-Fund shall have a fund balance sufficient to fund replacement of the Revenue Vehicle Fleet; reserves in excess of cashflow requirements may be invested at inter-fund borrowing rates in Council approved transit capital projects. Investment earnings attributable to reserves in each of these sub-funds will be credited to that sub-fund.
2. **Transit Rate Stabilization and Operating Enhancement Reserve.** The Transit Program will maintain a Transit Rate Stabilization and Operating Enhancement Reserve within the Operating sub-fund. The Transit Rate Stabilization Fund provides a reserve for moderating future rate increases and can receive appropriations from annual operating revenues in excess of annual operating expenses up to a maximum reserve of 20% of estimated fares; transfers to operating program to finance operating enhancements shall demonstrate financial support throughout the six year financial planning period.
3. **Multi-year Planning.** The Transit Program will maintain a multi-year financial plan and cash flow projection of six years or more, estimating service growth, operating expenses, capital requirements, reserves, and debt service for each of the three sub-funds. This financial plan will be transmitted by the Executive and reviewed, modified, and adopted by the Council and used as a policy basis for annual budget planning. The Executive shall transmit, and the Regional Transit Committee shall review and recommend for adoption by the Council financial policies for use in the financial plan and annual budget planning process. These policies shall be adopted by Council at least three months prior to introduction of the proposed Transit Program budget to the Council.
4. **Mission and Goal Statements.** The Executive shall transmit, and the Regional Transit Committee shall review and approve the annual mission and goal statements for the Metro Transit Program prior to establishing financial and service policies and priorities.
5. **Balancing Cash Flow Priorities.** Financial planning for the Transit Program will balance service goals with the appropriate mix of operating and capital revenues and expenditures, as well as provide reserves to maintain stability in the overall program. To provide a balance between operating and capital revenue requirements, sales tax revenue is divided with three-fourths scheduled to fund operations and one-fourth scheduled to fund debt service requirements, then vehicle replacement contributions, and finally other capital requirements.
6. **Operating Subsidy Allocation.** All new service subsidy resources (except for funds excluded by other policies, such as schedule maintenance hours) shall be allocated to each planning subarea within King County in proportion to the projected population of that subarea, as represented by adopted Puget Sound Regional Council (PSRC) population forecasts for the year 2000; west subarea - 36 percent; east subarea - 28 percent; south subarea - 36 percent. The percent distribution will be updated to reflect changes in the PSRC population forecasts adopted by the PSRC General Assembly.

7. **Schedule Maintenance Hours.** Schedule maintenance hours shall be budgeted in an amount equal to 0.5% of total annual service hours and need not be allocated by subarea. In the event that schedule maintenance hours are proposed at a different level by the Department of Transportation, the Regional Transit Committee shall review the proposal and recommend any change in allocation policy to the Metropolitan King County Council.
8. **Debt Service Coverage.** To comply with bond covenants, Transit must maintain a debt service coverage ratio of 1.5 from the .2 percent sales tax revenues on which debt service payments have a first and prior lien. For budget planning purposes, a debt service coverage ratio of 2.0 will be maintained.
9. **Prudent Budget Standards.** Budget planning of revenues and expenditures will be prudent. Projected revenues from all sources, including contributions from the Rate Stabilization and Service Enhancement Reserve will exceed operating budget expenses by at least one percent each year throughout the six year financial plan. If operating reserves are below their targeted levels, the balance on operations is first used to replenish required reserves. Any remaining balance on operations will be reserved for future transit fare stabilization and service enhancement reserve contributions or other transit operating priorities. Excess operating funds may be transferred to the capital program, subject to appropriation.
10. **Thirty Day Cash Operating Reserve.** To maintain sufficient funds for cash flow requirements and to fund unforeseen emergencies costs, the Transit division will maintain minimum cash balances in the Public Transportation Operating Sub-Fund equal to one-twelfth of the annual budget.
11. **Future Claims and Liabilities.** Estimates of future liabilities, claims, and replacement will be reported in budget planning.
12. **Capital Planning and Funding.** Capital replacement requirements will be included in long-term cash flow projections, primarily through the Revenue Fleet Replacement sub-fund. The cash flow plan should provide for replacement capital of the existing service plan and reliable long-term revenue sources to fund additional service and associated capital investments. Debt will be used on a limited basis primarily for short-term cash flow needs. Debt will not be used to fund long-term cash flow shortages. For major capital projects with long-term useful lives (normally 25 years or more) and whose costs exceed short-term cash flows, debt may be used providing there is sufficient dedicated revenue within the cash flow plan to service the debt. To maintain accurate estimates of future operating expenses, capital project plans will include estimates of added costs or savings resulting from the project.
13. **Costs of Service.** Hourly costs of current service should grow at or below the rate of inflation in future budget years. If hourly costs of service exceed this amount, explanations will be provided in budget planning, and options for reducing hourly costs to the targeted level will be presented to the Council for consideration.

14. **Operating Revenues/Operating Expenditures (OR/OE)**: Transit will maintain a target of recovering a minimum of 25 percent of operating expense (OE) from operating revenues (OR) for bus services. Vanpool and other general public passenger services will have their own operating revenue to operating expense ratio. The revenues received, and costs to provide paratransit services, are excluded from this policy. The OR/OE is but one of many factors to be considered in evaluating fare proposals. Achieving a specified OR/OE, by itself, is neither sufficient reason for a fare increase nor for any particular level of increase.
15. **Cost Recovery**. Any Transit Program services performed for other public or private organizations will be reimbursed to recover all direct and indirect costs of the program unless otherwise authorized by the King County Executive and, if required, Council action. The Executive Director shall have authority to waive this policy in specific circumstances where recovery of all direct and indirect expenses in a service fee may interfere with the ability to sponsor or participate in services that are vital to the primary goal of King County's public transportation program. Transit shall annually report the costs and recoveries for each of these services provided during the previous year.
16. **Operating Grants**. Prior to acceptance of grant funds, they will be reviewed to determine if funding is predictable from year to year. Operating grants which obligate the Transit Program to fund future services will be reviewed in cash-flow planning each year so future local funding requirements are an integral part of the financial and service plan.
17. **Fares**. Fares will be reviewed no less frequently than every two years and will be based on a standard rate-setting methodology beginning with a revenue requirements analysis for the period of the Transit financial plan (6 years). Taking into account the adopted financial policies, the need for equity in the proportion of the costs which are recovered from the riders, the projected system costs (both operating and capital), and the revenues expected from all other sources, the total amount of fare revenue needed will be calculated. For financial planning purposes, fare increase assumptions in the out-years will be based in relation to expected inflation. The fact that a fare increase is assumed for a future year, during a planning process, does not mean that a fare increase will be recommended. A recommendation will only occur after a complete assessment of the financial status of the public transportation fund.
18. **Overhead Charge**. The calculation of general government overhead expenses to be charged to the public transportation fund shall be based upon a methodology which provides for equitable distribution of overhead costs throughout the Metropolitan King County government. Overhead charges shall be calculated in a fair and consistent manner. The methodology in the Cost Allocation Study dated September 23, 1994, prepared by Deloitte & Touche LLP, shall be used to distribute transit's share of general government overhead costs. The overall allocation formula shall not be modified without Regional Transit Committee review and recommendation and Metropolitan King County Council approval.