07/07/98 | Introduced By: ROB MCKENNA Maggi Fimia

at | Proposed No.: 98-441

MOTION NO. 10527

A MOTION adopting 1999 transit program financial policies

WHEREAS, the King County council approved motion 10038 requiring an annual review of the transit program's financial policies, and

WHEREAS, the 1998 financial policies provide guidance for the allocation of new transit operating subsidies but do not address the possibility of future subsidy reductions or the reallocation of existing subsidy investment that might result from route consolidation or the elimination of unproductive service, and

WHEREAS, the practice of the Metro Transit Division is to reallocate operating subsidies within the subareas where they are currently invested, and

WHEREAS, the Regional Transit Committee has reviewed the adopted 1998 financial policies and recommended an amendment to the county council;

10527

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

The transit program financial polices for 1999, as amended and attached, are hereby approved.

PASSED by a vote of 10 to 0 this 3rd day of August, 1998.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Louise Miller
Chair

ATTEST:

[signature]
Clerk of the Council

Attachments: 1999 transit program financial policies

10527.

1999 TRANSIT PROGRAM FINANCIAL POLICIES

I. FUND STRUCTURE AND RESERVES

A. 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.

B. Transit Fare Stabilization and Operating Enhancement Reserve. The Transit Program will maintain a Transit Fare Stabilization and Operating Enhancement Reserve within the Operating sub-fund. The Transit Fare Stabilization and Operating Enhancement Reserve 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 the operating program to finance operating enhancements shall demonstrate financial support throughout the six year financial planning period. Expenditures from the reserve are subject to appropriation.

C. Thirty Day Cash Operating Reserve. To maintain sufficient funds for cash flow requirements and to fund unforeseen emergency costs, the Transit division will maintain minimum cash balances in the Public Transportation Operating Sub-Fund equal to one-twelfth of the annual budget.

D. Prudent Budget Standards. Budget planning of revenues and expenditures will be prudent. Projected revenues from all sources, including contributions from the Fare 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 operating enhancement reserve contributions or other transit operating priorities. Excess operating funds may be transferred to the capital program, subject to appropriation.

II. RESOURCE ALLOCATION

A. 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 revenue fleet replacement contributions, and finally other capital requirements.

B. 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. Service subsidy currently invested within a subarea and fare revenues generated there shall not be shifted to another subarea. Any system-wide reduction in the level of service subsidy shall be reduced proportionally among the subareas consistent with the population-based allocation formula for new service subsidy.

C. 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.

D. 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.

III. CAPITAL FUNDING AND DEBT

A. 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.

B. 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.

IV. FARES AND COSTS

A. 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 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.

B. 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.

C. 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.

D. Special Services 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 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, subject to confirmation by the King County Council as soon as possible after the action taken by the Director for all expenditures in excess of $30,000 annually. Transit shall annually report the costs and recoveries for each of these services provided during the previous year.

V. FINANCIAL POLICIES DEVELOPMENT

A. 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.

B. 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.

C. Future Claims and Liabilities. Estimates of future liabilities, claims, and replacement will be reported in budget planning.

D. 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.