



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

October 22, 2002

Ordinance 14506

Proposed No. 2002-0441.2

Sponsors McKenna

1 AN ORDINANCE adopting 2003 Transit Program Financial
2 Policies.

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5 PREAMBLE:

6 Adopted transit financial policies require maintenance of a multiyear
7 financial plan and cash flow projection of six years or more, estimating
8 service growth, operating expenses, capital requirements, reserves and
9 debt service. The transit financial policies are reviewed annually by the
10 regional transit committee, which may recommend policy changes to
11 guide development of a new six-year transit financial plan.

12 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:


13 SECTION 1. The 2003 Transit Program Financial Policies, Attachment A to this
14 ordinance, are hereby approved.

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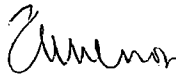
Ordinance 14506 was introduced on 9/16/2002 and passed by the Metropolitan King
County Council on 10/21/2002, by the following vote:

Yes: 13 - Ms. Sullivan, Ms. Edmonds, Mr. von Reichbauer, Ms. Lambert, Mr.
Phillips, Mr. Pelz, Mr. McKenna, Mr. Constantine, Mr. Pullen, Mr. Gossett,
Ms. Hague, Mr. Irons and Ms. Patterson
No: 0
Excused: 0

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON


Cynthia Sullivan, Chair

ATTEST:



Anne Noris, Clerk of the Council

APPROVED this 2 day of NOVEMBER, 2002.


Ron Sims, County Executive

RECEIVED
2002 NOV - 1 PM 3:14
KING COUNTY COUNCIL
CLERK

Attachments A. 2003 Transit Program Financial Policies, dated October 16, 2002

2003 TRANSIT PROGRAM FINANCIAL POLICIES

October 16, 2002

I. FUND STRUCTURE AND RESERVES

A. Fund Structure. The Transit Program will consist of three subfunds: Transit Operating, Revenue Fleet Replacement, and Transit Capital. The Revenue Fleet Replacement Sub-Fund shall maintain a 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 subfunds will be credited to that subfund.

B. Transit Fare Stabilization and Operating Enhancement Reserve. The Transit Program will maintain a Transit Fare Stabilization and Operating Enhancement Reserve within the Operating Subfund. 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 Subfund equal to one-twelfth of the annual budget.

D. Prudent Budget Standards. Budget planning of revenues and expenditures will be prudent. Projected funding of the Operating Subfund from all sources, including the subfund balance and contributions related to specifically authorized expenditures from the Fare Stabilization and Operating Enhancement Reserve, will together equal or exceed operating budget expenditures each year throughout the six year financial plan. If actual operating reserves fall below their targeted levels, the balance on operations is first used to replenish required reserves followed by funds from the Fare Stabilization and Operating Enhancement Reserve. Any remaining balance on operations will be reserved for the Fare Stabilization and Operating Enhancement Reserve.

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. Funds may be transferred between the capital and operating programs, subject to appropriation.

B. 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 Subfund. The cash flow plan should provide for the capital replacement needs 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 one of many factors to be considered in evaluating fare proposals. Achieving a specified OR/OE is, by itself, 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 six-year period of the Transit Financial Plan. 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 be made only 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 by March 1st, and the Regional Transit Committee shall review and approve the annual mission and goal statements for the Metro Transit Program prior to establishing financial policies and service priorities.

B. Multi-year Planning. The Transit Program will maintain a 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. Each year the Regional Transit Committee shall review and the Council shall adopt Transit Program Financial Policies which shall then be used to guide development of the executive-proposed transit budget and financial plan. This financial plan will be transmitted at the same time as the executive-proposed budget and may be modified by the Transit Division during council budget review to reflect the impact of changed circumstances or alternatives under consideration. The financial plan shall be revised to reflect the adopted Transit Budget and used to guide budget planning for the following year.

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 that 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.