



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

July 19, 2016

Ordinance 18321

Proposed No. 2016-0314.1

Sponsors Upthegrove

1 AN ORDINANCE adopting 2016 Fund Management
2 Policies for the Public Transportation Fund; and repealing
3 Ordinance 17225, Section 1.

4 **STATEMENT OF FACTS:**

5 1. Adopted transit fund management policies provide a framework to
6 ensure the financial health and viability of the public transportation fund.

7 2. In 2011, by Ordinance 17225, council adopted fund management
8 policies for the public transportation fund.

9 3. During the 2015/2016 budget development, both the executive and
10 council called for a review of the fund management policies, especially
11 with regard to reserve levels, uses, and replenishment

12 4. During 2015, a workgroup consisting of executive, office of
13 performance, strategy and budget, transit division, department of
14 transportation director's office and council staff reviewed the existing
15 policies and hired a consultant to provide recommendations on reserve
16 types, levels, uses and replenishment.

17 5. The consultant's report was completed in December 2015 and these
18 findings were presented to the workgroup.

19 6. In 2016, the executive convened the special committee on transit to
20 review the consultant's recommendations and the workgroup's draft fund
21 management policy recommendations.

22 7. In May 2016, the special committee on transit reached consensus on
23 revised fund management policies for the public transportation fund.

24 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

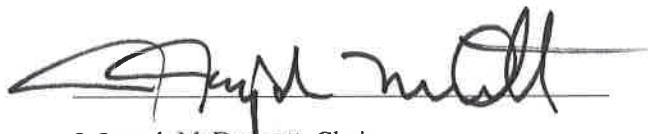
25 SECTION 1. Ordinance 17225, Section 1, is hereby repealed.

26 SECTION 2. The 2016 Fund Management Policies for the Public Transportation
27 Fund, Attachment A to this ordinance, are hereby approved.
28

Ordinance 18321 was introduced on 7/5/2016 and passed by the Metropolitan King
County Council on 7/18/2016, by the following vote:

Yes: 9 - Mr. von Reichbauer, Mr. Gossett, Ms. Lambert, Mr. Dunn,
Mr. McDermott, Mr. Dembowski, Mr. Upthegrove, Ms. Kohl-Welles
and Ms. Balducci
No: 0
Excused: 0

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON



J. Joseph McDermott, Chair

ATTEST:



Anne Noris, Clerk of the Council

APPROVED this _____ day of _____, 2016

**DEEMED ENACTED WITHOUT
COUNTY EXECUTIVE'S SIGNATURE**

DATED: 8/1/16

Dow Constantine, County Executive

Attachments: A. Fund Management Policies for the Public Transportation Fund

RECEIVED
2016 AUG -1 PM 3:44
KING COUNTY COUNCIL
CLERK

FUND MANAGEMENT POLICIES FOR THE PUBLIC TRANSPORTATION FUND

I. General Financial Practices

- A. General Financial Practices** – The fund management policies for the Public Transportation Fund serve to ensure that the Transit Division uses prudent financial planning to meet the policies and priorities of the adopted Strategic Plan for Public Transportation and the King County Metro Service Guidelines. The Transit Division will manage its finances to fund expenditures in the following order: (1) debt service; (2) operation of the current transit system levels,¹ including asset maintenance and replacement; (3) maintenance and replenishment of reserves; (4) new transit service and capital investments necessary to achieve All Day and Peak Network priorities identified by the King County Metro Service Guidelines, and new transit service and capital investments necessary to achieve elements of the long range vision identified in Metro Connects.
- B. Fund Structure** - Metro Transit manages the Public Transportation Fund as an enterprise through five distinct subfunds: Operating, Capital, Bond, Revenue Stabilization, and Revenue Fleet Replacement.
1. The Operating Subfund supports the ongoing operation of Transit services, including but not limited to bus, paratransit, vanpool/vanshare, and various contracted services. It includes direct operating labor and non-labor costs, administrative costs, and indirect and overhead costs.
 2. The Infrastructure Capital Subfund supports capital infrastructure projects, including the planning, design, acquisition, preservation and replacement of infrastructure and other capital items as needed to support Transit operations.
 3. The Bond Subfund supports annual debt service payments for debt-financed Transit assets.
 4. The Revenue Stabilization Subfund holds fund balance to offset impacts of economic downturns.
 5. The Revenue Fleet Capital Subfund supports new and replacement revenue fleet purchases.
- C. Financial Planning** – With each biennial budget, the Transit Division will provide a financial plan and cash flow projection of six years or more, estimating operating expenses and capital requirements of the current system, operating and capital expenses of sustainable system expansion, reserves, and debt service for all of its subfunds. For any operating grants, the financial plan will identify the costs of continuing to operate the service after the grant ends.
- D. Capital Planning** – At a minimum, the Transit Division will maintain a rolling 10-year plan to identify and prioritize needed new facility infrastructure and

¹ Including passenger loads and reliability investments as prioritized in the King County Metro Service Guidelines.

Ordinance 18321 Attachment A

infrastructure maintenance, preservation, and improvement for transit facilities based on the current transit system level.² These prioritized needs will be reflected in the six-year transit capital improvement program.

II. Expenditure Policies

Subfund Transfers – In order to minimize administrative burden for the Public Transportation Fund and reduce the need for interfund borrowing, transfers between the Operating, Infrastructure Capital, Revenue Fleet Capital, and Bond subfunds do not need to be appropriated. However, transfers from the Revenue Stabilization Subfund to any of the other subfunds must be appropriated.

III. Revenue Policies

- A. Farebox Recovery Ratio** – The Transit Division will recover at least 25 percent and will maintain a target of recovering 30 percent of passenger related operating costs from farebox revenues for bus service.
- B. Fare Parity** – It is the intent of the Transit Division to achieve parity between its Access fare and off-peak adult fare over time. Parity will be measured by dividing the access fare by the off-peak adult fare for any given year. The Access fare will achieve full parity when the ratio of the Access fare to the off-peak adult fare is one to one.

IV. Reserves/Subfunds Purposes and Targets

A. Recession, Risk, and Cash Flow Reserves

1. To mitigate the risks associated with a moderate-level economic recession,³ to fund unforeseen changes in operating expenditures, and to provide for cash flow needs, the Transit Division shall maintain Recession, Risk, and Cash Flow Reserves, as described below, equivalent to 45 percent of the forecast total annual enterprise fund sales tax revenue. These reserves shall be distributed as follows:
 - a. **Operating Risk/Cash Flow Reserve** – To maintain sufficient funds for cash flow requirements, to fund unforeseen emergency operating expenses, and to mitigate unanticipated revenue losses, the Transit Division will maintain minimum cash balances in the Operating Subfund equal to 15 percent of the Recession, Risk, and Cash Flow Reserves. For purposes of mitigating recessionary economic conditions, these reserve

² The current Transit system level includes consistency with Federal Transit Authority Moving Ahead for Progress in the 21st Century requirements (MAP-21 Section 20019 / 49 U.S.C. Section 5326).

³ These Fund Management Policies were developed using actual financial performance experience during the 2001 recession, which is referred to as a moderate-level economic recession for these Fund Management Policies.

Ordinance 18321 Attachment A

monies will be the last Recession Risk Reserve monies used and the first priority for reserve replenishment.

- b. **Revenue Stabilization Subfund** – To maintain sufficient funds for operating and associated capital expenses associated with mitigating recessionary economic conditions, the Transit Division will maintain a Revenue Stabilization Subfund with a balance equal to 85 percent of the Recession, Risk and Cash Flow Reserves. Monies in the Revenue Stabilization Subfund may only be accessed through enactment of an appropriation ordinance.
2. Use of a portion of the Revenue Stabilization Subfund balance may be requested by the County Executive through submittal of an appropriation ordinance when the forecasted year-over-year sales tax base growth falls below the June-to-June Seattle CPI-W growth rate for 2 consecutive forecasts (as adopted by the King County Forecast Council).
 3. If the year-over-year real sales tax base (i.e., sales tax base adjusted for June-to-June Seattle CPI-W) decreases by more than five percent in any one year or more than 10 percent as a cumulative value over two or more years, then any Executive request to use a portion of the Revenue Stabilization Subfund shall be accompanied by a proposal to implement one or more of the following: operating service reductions, capital project delays or cancellations, cost saving efficiencies or indirect cost reductions, revenue generation options, or other mitigating actions.
 4. The Executive and Council should use no more than 50 percent of the Recession Risk Reserves in any one year.
 5. After use, the Recession Risk Reserves should begin to be replenished within two years of when the sales tax base growth from the prior year exceeds the June-to-June Seattle CPI-W value for 2 consecutive forecasts (as adopted by the King County Forecast Council). The Recession Risk Reserves fund balance shortfalls should be replenished on average 20 percent per year, such that the Recession Risk Reserves are replenished to the target level within 5 years.
- B. Revenue Fleet Replacement Reserve** – To smooth large expenditure fluctuations associated with fleet replacement purchases, the Transit Division will maintain a Revenue Fleet Replacement Reserve in the Revenue Fleet Capital Subfund with the following characteristics:
1. This reserve will be funded by consistent biennial contributions (incorporating an inflation factor) of sales tax and projected grant revenue in order to fund a 20-year fleet replacement plan.

Ordinance 18321 Attachment A

2. Short term (5-year or less) debt may be used to mitigate peaks in fleet purchases when fleet purchase costs exceed the sum of the current Transit resource contribution plus projected grant revenue⁴.
 3. The Revenue Fleet Replacement Reserve balance shall never be less than zero nor exceed \$250 million in 2016 dollars adjusted for the value of the fleet.
 4. The contribution levels will be reviewed biennially and adjusted to achieve these policy characteristics.
- C. Bond Subfund Reserve** – The Transit Division shall maintain a Bond Subfund fund balance sufficient to meet the obligations of the Transit Division's bond requirements.

⁴ In general, short term debt shall be planned for years when the fleet purchase costs are more than twice the current Transit resource contribution.