

REGIONAL TRANSIT AUTHORITY

**RESOLUTION NO. 98-4
BACKGROUND AND COMMENTS**

Meeting:	Date:	Agenda Item:	Staff Contact:	Phone:
Finance Committee	2/19/98	Action	Jan Hendrickson	206-689-3148
Board Meeting	2/26/98	Action	Brian McCartan	206-684-1603

ACTION:

Approve budget policies for RTA.

BACKGROUND:

The attached budget policies establish the content, schedule, adoption process, and authorization procedures for the annual RTA budget. They answer the following questions:

- What will be in the budget?
- When will the budget be submitted?
- How will the Board adopt the Budget?
- What does the Board authorize when it passes the Budget?

Implementation of Sound Move's aggressive schedule will require the ability to manage resources flexibly to respond to changing conditions. In addition, it will also be essential to maintain streamline, efficient lines of authority to allow for quick decision making.

However, the need for flexibility and streamline procedures must be carefully balanced against accountability. The RTA has committed to deliver a system of transportation improvements on time and on budget. The Agency must administer its resources to the highest fiduciary standards and must retain the confidence and trust of the public.

The attached budget guidelines balance the RTA's needs for general budgetary flexibility while maintaining accountability. The policies grant the Executive Director authority for administering the Agency's budget. Under the policies, the Board would set the "bottom line" of total agency expenses, and the Executive Director would have the flexibility to move funds between budget line items and between Departments, so long as the total "bottom line" agency expenses were not exceeded.

The Board would retain tight control over Agency expenditures by several means. First, Resolution No. 78, which requires all contracts over \$200,000 to receive Board approval, would remain the controlling policy for authorization of agency expenses. The Board would also have to grant, per Resolution No. 78, final authorization on all capital projects. In addition, the budget policies do not allow any transfer of capital outlays between capital projects. Finally, the Board would be able to monitor budget expenditures on a regular basis through the "Budget to Actuals" reports and capital project reports.

RELEVANT BOARD POLICIES AND PREVIOUS ACTIONS TAKEN:

Sound Move Financial Policies (Appendix B)

Resolution No. 78

R.C.W. 81.112.040

1997 Adopted Budget

1998 Adopted Budget

KEY FEATURES:

Content of Budget:

The policies establish the required content of the budget, which is similar in scope to that required of many other jurisdictions. In keeping with the adopted financial policies, these policies require itemized information on revenues, expenses and personnel. The policies also require that the budget include a six-year capital plan.

Budget Submission and Adoption

The policies establish a schedule for budget submittal and consideration, and procedures for Board adoption.

- Submitted no later than 60 days before end of fiscal year
- Public hearing required
- Budget reviewed and recommendation for adoption by Finance Committee
- Resolution to adopt budget (requiring a super-majority vote of board) prior to end of fiscal year

Authorization

The policies grant the Executive Director necessary flexibility in managing the budget, while still retaining a high degree of accountability to the Board and public.

- Resolution No. 78 remains key process for authorization of expenses.
- Board adopts only total budget expenses and outlays (not line-item budget).
- Board endorses six-year capital plan.
- Executive Director allowed to reallocate expenses between budget line items so long as total agency expenses do not exceed Board adopted budget and so long as items were referenced or of the type included in the budget.
- For capital projects, budgeted funds can be moved between years and between costs elements, so long as total project budget is not exceeded.
- No transfers allowed between capital projects.
- Transfers between Departments allowed without Board approval, so long as total agency budget is not exceeded.
- Executive Director can submit a supplemental budget resolution at any time for Board and Finance Committee consideration.

ALTERNATIVES:

The Board could choose not to adopt budget policies at this point in time.

The Board could also choose to implement budget policies which give the Executive Director less flexibility in managing the agency's budget. As example, the Board could grant the Executive Director only line-item authorization – no line item in the budget could exceed its budgeted level and no transfers between Departments or line items would be allowed. Each item in the budget would be an appropriation, which could be exceeded only if direct Board approval was received. This approach, however, could reduce project management responsiveness.

CONSEQUENCES OF DELAY:

The consequence of the Board not adopting budget policies at this time would be that the Agency would continue to expend funds without any formal budget "rules". While the Executive Director is currently spending funds consistent with the 1998 Adopted Budget, and in keeping with Resolution No. 78, it is not clear to what extent he has flexibility to manage the budget.

Staff anticipates that the budget policies will need to be refined over the coming year, as the agency's financial management system is finalized, and resubmitted to the Board for consideration.

REGIONAL TRANSIT AUTHORITY

RESOLUTION NO. 98-4

A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King and Snohomish Counties region adopting budget policies for the Authority.

WHEREAS, on November 5, 1996 at a general election held within the RTA District, the voters approved local-option taxes to support implementation of the Ten-Year Regional Transit System Plan; and

WHEREAS, R.C.W. 81.112.040 identifies budget adoption as a "major decision" requiring two-thirds Board adoption by; and

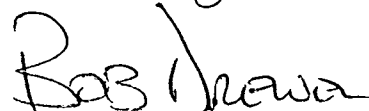
WHEREAS, Sound Move financial policies establish certain guidelines and budget policies to be followed by the RTA; and

WHEREAS, on December 13, 1997, the RTA Board adopted its first full year budget and six-year capital plan; and

WHEREAS, prudent financial management practices dictate adoption of budgetary policies to establish clear expenditure authority to insure accountability for the expenditure of public funds;

NOW, THEREFORE, BE IT RESOLVED by the Board of the Regional Transit Authority that the RTA does hereby adopt the attached RTA Budget Policies which details the procedures, content, schedule, and expenditure authority for RTA annual budgets.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 26TH day of February 1998.



Bob Drewel
Board Chair

ATTEST:



Marcia Walker
Board Administrator

RTA Budget Policies

1.0 Overview

1.1 Purpose

The purpose of these guidelines is to establish a fiscally sound budgeting and reporting process under which all the Central Puget Sound Regional Transit Authority's (RTA) activities will be administered.

1.2 Equity Principles

All budget policies, actions, and budgetary expenses and outlays will be consistent with the equity principles as defined in *Sound Move, Appendix B: Financial Policies*. Budgets will be submitted by the Executive which allocate local tax revenues and related debt for projects and services among the subareas generally in proportion to the level of revenues each subarea generates. Annual RTA budgets will incorporate updated forecasts of subarea revenues based on actual receipts. The RTA is committed to the principles of subarea equity, but will maintain the flexibility necessary to manage the financing of the system plan on a consolidated basis and within legal requirements.

2.0 Content and Form of Budget

2.1 Level of Control

The Finance and Administration Department will collect and monitor budget information at the divisional level. Budget information and data will be submitted to the Board in the Proposed Budget at the Departmental level.

2.2 Budget Control and Reporting

The accounting system should provide the basis for appropriate budget control. Budgetary comparisons should be included in the appropriate financial statements and schedules for agency accounts for which an annual budget has been adopted. Budgets will be prepared on an accrual basis

The Director of Finance and Administration will establish and maintain a financial reporting system which records revenues when earned except for taxes which will be recorded on a modified accrual basis and expenses when incurred. The Executive Director will submit to the Board regular written reports which compare budgeted revenues and expenses to actual revenues and expenses. Such reports will be made available to the Citizen's Oversight Panel.

2.3 Revenues

The budget will include estimated revenue for the current fiscal year and forecasted revenue for the budget year. Revenues will be reported for all major revenue sources, including not limited to, retail sales and use tax, motor vehicle excise tax, grants, fares, and investment interest.

The Proposed Budget will contain a description of major trends in revenue collection in the RTA region. The revenue forecasting methodology and assumptions will also be described. Revenues from motor vehicle excise tax and retail sales and use tax will be forecast by sub-area. The Executive may include additional revenue information as deemed pertinent and useful.

2.4 Expenses

The Proposed Budget will include estimated expenses for the current fiscal year and for the proposed budget fiscal year. Expenses will be listed by Expense Category for each Department in the budget documentation. Expense Categories will include, but not be limited to, expenses for:

- a) Salaries, wages, and benefits;
- b) Office Expenses;
- c) Services;
- d) Administrative Expenses; and
- e) Other Expenses.

The Executive Director may include additional expense information, or may change categorization of expenses, as deemed pertinent and useful.

2.5 Personnel

The Proposed Budget shall list for each Department:

- a) Number of FTEs expected at end of current year;
- b) Number of FTEs expected at end of budget year; and
- c) Total annual projected salaries, wages and benefits for the current year and new budget year.

2.6 Capital Budget

The Executive Director will include in the Proposed Budget a six year capital spending plan. The capital plan will include a listing of all capital projects that are projected to be completed with revenues collected from the budget year through December 31, 2006.

For each capital project, the budget documentation will include the following elements, where applicable:

- a) A description of the project;
- b) Original total program costs (in 1995 dollars) as used in the *Sound Move: Appendix A*;
- c) Current total program costs estimates in 1995 dollars and projected year of expense dollars;
- d) Estimated annual expenses for the next six fiscal years, listed by sub-area;
- e) Estimated expenses summed for the years remaining through December 31, 2006; and
- f) Where appropriate, estimated cost by phase (design, construction, contingency, etc.) within each project.

2.7 Supplemental Information

The following supplemental information will also be included within the Proposed Budget:

- a) A brief description of the RTA, *Sound Move*, the Board of Directors, and the Citizen Oversight Panel;
- b) A budget overview explaining the key goals for the budget year and how the projected expenses relate to the policy objectives in *Sound Move*, Implementation Guide, Financial Policies and other RTA policy documents;
- c) An organization chart listing each Department funded in the Proposed Budget, including a statement of their objectives and action plans;
- d) A summary statement of beginning and end year cash flow position;
- e) A summary of all outstanding debt obligations and principal and interest due by year, distributed by subarea;
- f) Other such information as required by the *Sound Move Financial Policies*; and
- g) Other such information as deemed pertinent and useful.

3.0 Budget Submission and Passage

3.1 Submission of Budget

The Executive Director will prepare and present a Proposed Budget to the Board no later than 60 days prior to the end of the fiscal year. Copies of the Proposed Budget will be forwarded by the Executive Director to the Board and Citizen's Oversight Committee and shall be made available to any interested person upon written request.

3.2 Public Hearing on Budget

Prior to October 31, the Board will set a date for a public hearing on the Proposed Budget. The notice of public hearing will state that the annual RTA budget is under consideration by the Board, designate the time and place of such hearing and confirm that any member of the public may appear and be heard for or against any part(s) of the budget. The Executive Director will publish the notice of public hearing in the newspaper(s) of record of the RTA prior to the public hearing.

3.3 Budget Review by Finance Committee

The Finance Committee shall review the Proposed Budget and submit it, together with changes and addenda to the Board for its consideration. Specific elements of the budget related to issues within the charter of another Committee will also be reviewed by that Committee, which will forward its recommendation to the Finance Committee and to the Board.

3.4 Budget Approval by Board

The Board will review the Proposed Budget and addenda as recommended by the Finance Committee and will make any changes or additions it deems necessary. Upon conclusion of its review of the budget, the Board will approve the budget by Resolution. The Board will pass a Budget Resolution by the start of the budget fiscal year. The Budget Resolution shall be approved by a two-thirds vote of the voting members.

3.5 Adopted Budget

The final Adopted Budget will contain a copy of the Budget Resolution. The office of the Director of Finance and Administration shall be responsible for printing and distributing the final Adopted Budget.

4.0 Authorization and Budget Administration

4.1 Resolution 78

Resolution No. 78 or its successor remains the controlling document in regard to the authority of the Executive to enter into contracts and incur obligations.

4.2 Board Adoption

The Board will adopt a Budget Resolution which will specify total net operating expenses, capital outlays and estimated revenues. It will also authorize a total gross operating expense, before allocation to capital projects, for each

Department. The Resolution shall adopt the Proposed Budget, with Board amendments, as the "Adopted Budget" in the form of an attachment.

4.3 Budget Authorization

The Executive Director is authorized to approve contracts related to gross operating expenses (prior to capitalization of expenses) up to \$200,000 without Board approval so long as such expenses were referenced or of the type included within the Adopted Budget and such expenses do not cause the agency budget to exceed the total level of agency expenses as authorized in the Budget Resolution.

4.4 Endorsement of Capital Plan

Board adoption of the budget through the Budget Resolution constitutes an endorsement of the six-year capital plan contained therein. Board endorsement of the capital plan does not constitute final project authorization, as per Section 9 B. of Resolution No. 78.

The Executive Director is authorized to approve contracts and incur capital outlays up to \$200,000 without Board approval so long as such expenses were reference or of the type included within the six-year capital plan.

Until the Board has granted final project authorization, all contracts related to capital projects that exceed \$200,000 must receive Board approval, per Resolution No. 78.

4.5 Budget Transfers

Budget transfers are a shift of expense authority from one Department to another or from one expense category (salaries, office expenses, services etc.) in a Department to another, subsequent to adoption of the final budget by the Board. Such transfers do not increase the expense authority for the entire agency beyond that designated in the Budget Resolution. Transfers must also be for expenses referenced or of the type included within the Adopted Budget.

Gross Operating Expenses

- a. Budget transfers for gross operating expenses in excess of \$50,000 between expense categories within a Department must be approved by the Department Director. The Director of Finance and Administration must be notified in advance of any such transfer.
- b. Budget transfers between Departments must be approved by the Executive Director. The Director of Finance and Administration must receive advanced notification of any such transfer.

- c. Budget transfers between Departments for operating expenses greater than \$50,000 but less than \$200,000 must receive the approval of the Executive Director. The Director of Finance and Administration must receive advanced notification of any such transfer. The Chair of the Finance Committee must be notified of any such transfer.
- d. Transfers between Departments for operating expenses greater than \$200,000 receive the approval of the Executive Director. The Director of Finance and Administration must receive advanced notification of any such transfer. The Finance Committee must be notified of any such transfer.

Capital Projects

- e. No transfers can be made between capital projects without the approval of the Board, except for costs allocated to capital projects from operating budgets. Within a capital project, the Executive Director is authorized to transfer outlays between phases and between years so long as these transfers will not result in a necessary increase to the total project budget.

4.6 Supplemental Resolution

The Executive Director shall submit to the Board a Supplemental Budget Resolution for, and only for, any expense or outlay that causes total agency expenses and outlays to exceed the total agency authorized expenses in the Budget Resolution or for any expense that is not referenced or of the type included within the Adopted Budget. Supplemental Budget Resolutions must be passed by a two-thirds majority of the Board.

4.7 Contingencies and Reserves

The RTA will budget funds so as to maintain general reserves and contingencies as specified in the adopted financial policies to cover unexpected decreases in revenue plus a reasonable level for extraordinary unbudgeted expenses and outlays. The minimum reserve balance will be equal to at least 60 days of cash flow for general administrative and agency--wide expenses and outlays. These reserves are in addition to any general bond reserves or contingencies provided within individual capital project budgets.

4.8 Lapsing of Authorization

Unless otherwise provided by resolution, all unexpended and unobligated authorizations in the current Budget Resolution will be subject to reallocation in the next Budget Resolution. This section applies only to current expenses and

not to capital budget authorizations or to reserves or contingencies deemed necessary for current contracts.

If the outlays necessary to complete a capital project are less than the authorized budgeted amount, the excess upon completion of the project may not be transferred to any other capital project without authorization by the Board.

5.0 Definitions

Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regarding of the timing of related cash receipts and disbursements.

Adopted Budget: The final Budget as adopted by Resolution by the Board

Authorization: A legal approval by the Board of Directors of agency actions to incur expenses and obligations for specific purposes.

BARS: Budgeting, Accounting, and Reporting Systems (BARS) manual published by the state auditor, with updates.

Budget Transfer: A shift of expense authority from one Department to another or from one expense category in a Department to another, subsequent to adoption of the final budget by the Board.

The Board: The Board of Directors of the RTA.

Budget Year: The fiscal year for the budget under consideration by the Board.

Capital Outlay: Expenses which are incurred in the acquisition of, or addition to, fixed assets.

Current Fiscal Year: The fiscal year prior to the Budget year.

Departments: The highest organizational units of the RTA, consisting of Board Administration, General Counsel, Executive Director, Legal Affairs, Public and Government Affairs, Finance and Administration, Link Light Rail, Sounder Commuter Rail, and Regional Express.

Division: The organizational sub-unit within Departments.

Expense Category: Groupings of expense types which include, but are not limited to, wages/salaries/benefits, services, office expenses, administrative expenses and other similar expenses.

Expenses: A decrease in net current assets. Expenses include debt service, capital expenses, and those current operating costs which require the use of current assets.

Fiscal Year: A 12-month period to which the annual operating budget applies and at the end of which the Agency determines its financial position and results of its operations. The RTA's fiscal year is concurrent with the calendar year.

FTE: The fractional equivalent of one full time employee working a forty-hour work week for one calendar year.

Phase: The budget elements of an individual capital project, such as design, construction, and contingency expenses.

Proposed Budget: The budget as submitted by the Executive Director to the Board for its consideration.

Revenues: Increases in proprietary fund type, net total assets from other than expense refunds and capital contributions.

Reserve: An account used to segregate a portion of fund revenues for a specific future use.

RTA: The Central Puget Sound Regional Transit Authority.

Subarea: Five geographic sub areas of the RTA district, consisting of Snohomish County, North King County, East King County, South King County, and Pierce County.

6.0 Other

6.1 Severability

These guidelines will be utilized by the RTA in all cases unless otherwise provided for by state or federal law. The provisions of these guidelines are separate and severable. The invalidity of any clause, sentence, paragraph, subdivision, section, or portion of this policy or the invalidity of the application thereof to any person or circumstances shall not affect the validity of the remainder of these guidelines, or the validity of its application to other persons or circumstances.

6.2 Effective Date

This policy will become effective on _____, 1998.

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