

**SOUND TRANSIT  
STAFF REPORT**

**RESOLUTION NO. R2002-08**

**Updating Sound Transit Budget Policies**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	7/18/02	Discussion/Possible Action to Recommend Board Approval Action	<b>Brian McCartan, Deputy Chief Finance Officer</b>	(206) 398-5100
Board	7/25/02			

<b>Contract/Agreement Type:</b>	<b>3</b>	<b>Requested Action:</b>	<b>3</b>
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	
Memorandum of Agreement		Contingency Funds Required	
Purchase/Sale Agreement		Budget Amendment Required	

4 Applicable to proposed transaction.

**OBJECTIVE OF ACTION**

Update Sound Transit's budget policies, last reviewed by the Board in 1998.

**ACTION**

- Adopting revised Sound Transit budget policies and superseding Resolution No. R98-4.

**KEY FEATURES**

- Existing budget policies outline the contents of the agency's annual budget and prescribe the processes for its submittal, adoption and modification.
- Proposed policy revisions include updates to agency structures and organizational name changes referenced in the policies.
- References to the agency's capital budget cycle are changed to reflect a six-year planning window rather than completion of all projects by December 31, 2006.
- Interdepartmental operating budget transfer provisions have been simplified.
- A section is added to outline Board policy on allocation of staff costs to capital and operating projects.
- Authority to transfer budget within capital projects is narrowed so that any changes are reported against Board adopted budget levels.
- Conditions for creation of baseline budget for all capital projects are established.
- A proposed new provision permits the Executive Director (after notice to the Audit and Reporting Subcommittee) to expense general and administrative costs incurred under capital projects, provided the costs were initially authorized by the Board as capital or operating funding.

## **DESCRIPTION OF POLICY**

The objective of this proposed action item is to update Sound Transit's budget policies. The current policies were adopted by the Board in 1998 and were structured to describe the organizational and financial framework in place at that time. The proposed revisions would effect necessary name, structural and procedural changes in the policies and would support the agency's application of Generally Accepted Accounting Principles (GAAP) in its financial operations.

## **IMPLICATIONS OF POLICY**

The proposed changes to the budget policies will not result in significant changes in existing agency reporting or business practices. The changes to the policies would:

- Update agency structures and organizational names;
- Simplify the requirements for interdepartmental operating budget transfers;
- Add a section to outline Board policy on allocation of staff costs to capital and operating projects;
- Narrows staff's authority to transfer budget within capital projects;
- Establishes baseline budgets for all capital projects; and
- Creates new authority for the Executive Director (after notice to the Audit and Reporting Subcommittee) to expense general and administrative costs incurred under capital projects, provided the costs were initially authorized by the Board as capital or operating funding.

## **ALTERNATIVES**

The Board could choose not to update its existing budget policies at this time.

The Board could also choose to implement budget policies which give either more or less flexibility to the Executive Director in managing the agency's budget. As an example, the Board could grant the Executive Director only line-item authorization (that is, 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 would require a much higher investment of time in budget oversight by Board members. By contrast, if the Board were to diminish its involvement from the level recommended in these policies, critical communication and policy direction in budgeting issues might be made more difficult.

## **RECOMMENDATION(S)**

Staff recommends the passage of the updated policies as submitted.

## **FINANCIAL IMPACTS**

The updated policies have no direct impacts on the agency's long-term financial plan.

## **HISTORY OF PROJECT**

### **Prior Board/Committee Actions and Relevant Board Policies**

<b>Motion or Resolution Number</b>	<b>Summary of Action</b>	<b>Date of Action</b>
Resolution No. 98-4	Adopting detailed budget policies governing development, adoption and modification of the agency's annual budget.	2/26/98
Motion No. 32	Adoption of the <i>Sound Move Implementation Guide</i> , which provides a general blueprint for the development of detailed 6-year capital and operating budgets.	5/27/97
Resolution No. 72	Adopting Sound Transit financial policies.	5/31/96

## **CONSEQUENCES OF DELAY**

The agency must transact its business in compliance with Board-adopted policies and procedures. Although a delay in implementing the recommended policy changes would not immediately impair the agency's ability to fulfill its objectives, it would weaken the organization's financial accountability structure.

## **REGIONAL PARTNERSHIP AND COOPERATION**

N/A

## **PUBLIC INVOLVEMENT**

N/A

## **LEGAL REVIEW**

JDW 5/14/02

## **SOUND TRANSIT**

### **RESOLUTION NO. R2002-08**

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority adopting revised budget policies, and superseding Resolution No. 98-4.

WHEREAS, on November 5, 1996, at a general election held within the Sound Transit 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 approval by two-thirds of the Board; and

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


WHEREAS, on February 26, 1998, the Sound Transit Board adopted policies providing guidelines and procedures for its budget contents, form, review/adoption processes and methods for modification; and

WHEREAS, the Sound Transit's organizational and financial structure has undergone changes since 1998; and

WHEREAS, prudent financial management requires the updating of budget policies to support the agency's accountability in its use of public funding within current organizational structures and processes.

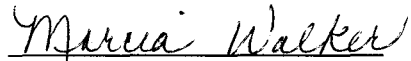
NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that the Board does hereby adopt the revised Sound Transit Budget Policies attached hereto which detail the procedures, content, schedule, and expenditure authority for Sound Transit annual budgets.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on July 25, 2002.

A handwritten signature in black ink, appearing to read "Ron Sims", written over a horizontal line.

Ron Sims  
Board Chair

ATTEST:

A handwritten signature in black ink, appearing to read "Marcia Walker", written over a horizontal line.

Marcia Walker  
Board Administrator

# **SOUND TRANSIT**

## ***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 (Sound Transit) 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 Sound Transit budgets will incorporate updated forecasts of subarea revenues based on actual receipts. Sound Transit 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 Information Services 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 Information Services 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 but 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 Sound Transit 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 subarea. 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) Leases and Rentals
- c) Services
- d) Materials and Supplies
- e) Miscellaneous Expenses
- f) Other Expenses
- g) Depreciation

The Executive Director may include additional expense information, or may change categorization of expenses, as deemed pertinent and useful. The Budget will separately detail annual budgets for providing transit operations, by line-of-business.

## **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 outlays through the six-year planning cycle.

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 capital outlays for the next six fiscal years, listed by subarea;
- e) Estimated capital outlays summed for the years remaining through project completions; 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 Sound Transit, *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 Sound Transit 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 of 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 90 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 Sound Transit 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 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 Chief Financial Officer shall be responsible for printing and distributing the final Adopted Budget.

## **4.0 Authorization and Budget Administration**

### **4.1 Resolution 78-1**

Resolution No. 78-1 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. 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. 78-1.

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 referenced 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. 78-1.

### **4.5 Establishment of Baseline Budget**

The Board may establish a Baseline Budget for a capital project at any point at its discretion after project scope, schedule and budget are well-defined. The Baseline Budget would subsequently not be amended or altered, unless by specific Board action, in order to provide management accountability. Unless otherwise established by the Board, the Baseline Budget will be equal to the project’s first Proposed Budget after completion of design.

## 4.6 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.
- b. Budget transfers between departments for operating expenses must receive the approval of the Executive Director. The Chief Financial Officer must receive advanced notification of any such transfer.
- c. The Finance Committee must be notified of any budget transfers between departments for operating expenses greater than \$200,000.

### Capital Projects

- d. No transfers can be made between capital projects without the approval of the Board. The capital budget is a planning document and actual authority to incur financial obligations is obtained by the Board through contract actions consistent with Resolution No. 78-1. No budget will be transferred within a capital project (between phases or years) unless approved by the Board. However, within a capital project, capital outlays for a phase or for the current fiscal year can exceed budget so long as:
  - i) Outlays are within board approved contract levels; and
  - ii) Lifetime outlays are within the total project budget; and
  - iii) Project managers have received approval from their Department Director to exceed the budget category for that phase or year.

No approval is required for allocated administrative costs that exceed budget for the current fiscal year, so long as such administrative costs are within total Board approved budget levels.

- e. The Executive Director is authorized to expense general and administrative (G&A) costs charged to capital projects, consistent with generally accepted accounting principles (GAAP), so long as such expenses had Board budget approval as capital or operating expenses. All expensing of G&A costs will be reported to the Audit and Reporting Subcommittee.

#### **4.7 Cost Allocation**

Sound Transit shall maintain a system for allocation of agency administrative costs to capital and operating projects consistent with Generally Accepted Account Principles (GAAP) and OMB Circular A-87.

Costs shall be allocated to capital and transit operations appropriate to the level of direct staff costs involved in implementing the related capital asset or transit operation. Remaining allocated agency costs not allocated to capital projects or transit service shall be considered general and administrative expenses of the line of business and subarea.

Recognizing that agency administrative costs are a substantial part of the total capital projects and transit services that Sound Transit is delivering, the cost allocation process and results will be audited annually by Sound Transit's independent auditor. Staff will also include in their development of the annual budget sufficient funds for agency administrative allocations to capital projects and transit services. Any substantial change in the agency's cost allocation system will be reviewed by the appropriate committee or subcommittee of the Board.

#### **4.8 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.

#### **4.9 Contingencies and Reserves**

Sound Transit 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.

#### **4.10 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, regardless 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.

**Baseline Budget:** Board approved budget benchmark for capital project costs that is established after completion of design work or at the discretion of the Board.

**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 Sound Transit.

**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 Sound Transit, consisting of Board Administration, General Counsel, Executive Director, Legal Affairs, Administration, Communications , Finance and Information Services, 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. Sound Transit'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.

**Sound Transit:** The Central Puget Sound Regional Transit Authority.

**Subarea:** Five geographic subareas of the Sound Transit 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 Sound Transit 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 July 25, 2002.

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