

RESOLUTION NO. R2015-32
Establishing an Asset Management Policy

| MEETING: | DATE: | TYPE OF ACTION: | STAFF CONTACT: |
|---------------------|--------------|------------------------|--|
| Executive Committee | 12/03/2015 | Recommend to Board | Brian McCartan, Executive Director Finance and Information Technology |
| Board | 12/17/2015 | Final Action | |

PROPOSED ACTION

Adopts an Asset Management Policy and supersedes Resolution No. R2007-26.

KEY FEATURES SUMMARY

- Establishes guidelines for forecasting and budgeting capital replacement and life-cycle maintenance to ensure the regional transit system is maintained in a state of good repair.
- The guidelines would require that:
 - The agency maintain a comprehensive asset management program and plan to meet or exceed the Federal Transit Administration’s (FTA) State of Good Repair and other regulatory requirements, environmental, safety, and customer service standards.
 - A rolling 40-year State of Good Repair Forecast (SGRF) be included in the annual Transit Improvement Plan (TIP), with funding for the first six years included in the TIP within the capital replacement and maintenance program. After 2023, forecasted and funded amounts will not fall below annual thresholds established by the policy. Before that time, the amount funded in the TIP will be based on forecasted repair and maintenance needs for the year budgeted. The full 40-year SGRF will be included and funded in the agency’s long-term financial plan.
 - The agency will maintain a minimum \$300 million in a Capital Replacement Reserve (CRR) to fund unexpected capital replacements.
 - The policy restricts use of the CRR and includes requirements to replenish money drawn from the CRR within five years.
 - Independent assessments of the SGRF must be conducted at least every five years.
- The Asset Management policy will apply to all Sound Transit assets with a useful life of less than 50 years.
- The policy would replace current Board policy that requires Sound Transit to maintain a separate Capital Replacement Reserve for the purpose of advance funding for replacement of agency assets and major mid-life maintenance. The creation of a 40-year rolling forecast for these costs, with six years of funding in the TIP and the full 40 years included in the agency’s finance plan, will reduce net borrowing costs compared with the current policy.
- The balanced established in the CRR under the existing policy (over \$300 million) would be maintained under the proposed policy to serve as an emergency capital replacement fund.
- If approved by the Board, the SGRF will be included in the Proposed 2017 Transit Improvement Plan.

BACKGROUND

In 2007, the Board adopted Resolution No. R2007-26 to establish a Capital Replacement Reserve (CRR) to fund necessary expenditures to keep the agency’s transit assets in a state of good repair to ensure the on-going safe and effective operation of the regional transit system. This action

would replace and supersede Resolution No. R2007-26 with updated guidelines for management of agency assets. The current CRR balance is just over \$300 million.

Under the proposed guidelines, Sound Transit will invest in, maintain, and manage its physical assets and infrastructure to ensure the safe, quality, cost-effective, and sustainable on-going provision of regional high capacity transit services to the citizens of the central Puget Sound. The agency will operate and maintain its assets in a state of good repair that meets or exceeds the FTA's State of Good Repair and other regulatory requirements, environmental requirements, safety standards, and high customer service standards. The agency will maintain a comprehensive asset management program and plan to ensure these goals are achieved.

Under the new proposed policy, the Transit Improvement Plan would include a 40-year State of Good Repair Forecast (SGRF) of the total amount required by year for life cycle maintenance and capital replacement to maintain all agency assets in a state of good repair. Beginning in 2023, the forecasted annual amounts would be required to not fall below the greater of \$50 million or 2% of the agency's estimated replaceable asset value for that year. Replaceable assets are defined in the policy as assets with a useful life less than 50 years and do not include light rail tunnel civil infrastructure.

The first six years of the SGRF would be funded in the agency's Transit Improvement Plan (TIP) within the capital replacement and maintenance program. The rolling 40-year SGRF would be included and funded in the agency's long-term financial plan. The funding of the SGRF would take priority over new capital facilities or expanded services.

Under the proposed action, the agency would maintain a minimum \$300 million CRR to fund unexpected capital replacement requirements. The CRR could only be used for a Board declared emergency or as approved by the Board to fund unexpected capital replacement and maintenance requirements not already funded within the TIP. If the funds are drawn from the CRR, the fund would be replenished within a five year period to the \$300 million level or to the revised level adopted by the Board at the time the reserve is drawn. Interest earnings on the reserve would be retained within the reserve account.

FISCAL INFORMATION

The current November 2015 Financial Plan contains the most current SGRF and fully funds the commitments under the new policy.

Under existing policy, the agency must make an annual contribution to the CRR to advance fund future capital replacement requirements. As the agency is currently borrowing funds to complete its capital program, this advance funding requirement increases the agency borrowings. The agency's current borrowing costs are approximately 3.5% while the CRR is invested at approximately 1.75%. Additional contributions to the CRR would result in net interest loss for the agency. The new policy's "pay go" funding of state of good repair requirements will minimize agency borrowing and interest loss.

SMALL BUSINESS/DBE PARTICIPATION AND APPRENTICESHIP UTILIZATION

Not applicable to this action.

PUBLIC INVOLVEMENT

Not applicable to this action.

TIME CONSTRAINTS

Resolution No. R2007-26 requires an annual contribution to the Capital Replacement Reserve. Because this action was scheduled for review by the Board, a contribution to the CRR was not included in the Proposed 2016 Budget. A one-month delay would require a change to the Proposed 2016 Budget to include a 2016 contribution to the reserve in compliance with the existing policy.

ENVIRONMENTAL REVIEW

JI 10/20/2015

LEGAL REVIEW

DB 12/1/15

RESOLUTION NO. R2015-32
Asset Management Policy

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority adopting the Asset Management Policy and superseding Resolution No. R2007-26.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under RCW Chapters 81.104 and 81.112 for the Pierce, King and Snohomish Counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, Sound Transit is authorized to plan, construct and permanently operate a high-capacity system of transportation infrastructure and services to meet regional public transportation needs in the Central Puget Sound region; and

WHEREAS, in general elections held within the Central Puget Sound Regional Transit Authority district on November 5, 1996, and November 4, 2008, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, in implementing the voter-approved Sound Move and Sound Transit 2 plans, the agency has built over \$4 billion in fixed assets to provide ongoing public transit services to the citizens of the region; and

WHEREAS, the Federal Transit Administration (FTA) requires transit agencies maintain their assets in a state of good repair; and

WHEREAS, regular maintenance of agency capital assets lengthens the useful lives of agency capital assets; and

WHEREAS, a planned, funded capital replacement and maintenance program ensures that the regional transit system is retained in good working condition to the benefit of current and future users of the system; and

WHEREAS, the Board adopted Resolution No. R2007-26 to establish a capital replacement reserve within the agency's financial systems and records.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that the Asset Management Policy is adopted as follows and Resolution No. R2007-26 is superseded.

1.0 Scope

- 1.1 Establishes policy for agency enterprise asset management and funding necessary to keep agency assets in a state of good repair.

2.0 Definitions

- 2.1 Replaceable assets: Assets recorded within the agency's fixed asset system with useful life less than 50 years.

3.0 Policy

- 3.1 Sound Transit invests in, maintains and manages its physical assets and infrastructure to ensure safe, quality, cost-effective and sustainable ongoing provision of regional high-capacity transit services to the citizens of the Central Puget Sound.
 - 3.1.1 The agency operates and maintains its assets in a state of good repair that meets or exceeds the FTA's state of good repair and other regulatory requirements, as well as environmental, safety and customer service standards.
 - 3.1.2 The agency maintains a comprehensive asset management program and plan to ensure that these goals are achieved.
- 3.2 The CEO will include in the annual Transit Improvement Plan a State of Good Repair Forecast (SGRF) of the total amount, by year for a rolling 40-year period, required for lifecycle maintenance and capital replacement to maintain all agency replaceable assets in a state of good repair.
 - 3.2.1 The agency's Board-adopted Transit Improvement Plan will include the first six years of funding for the SGRF within the capital replacement and maintenance program.
 - 3.2.2 Beginning in 2023, the forecasted and funded annual amounts in the Transit Improvement Plan (TIP) will not on average fall below the greater of \$50 million annually or two percent of the agency's estimated replaceable asset value for that year.
 - 3.2.3 The agency's long-term financial plan will include the full 40-year SGRF.
 - 3.2.4 The agency must use funds legally available for this purpose to fully fund the SGRF before funding expenditures for new capital facilities or expanded service.
- 3.3 The agency shall maintain a minimum \$300 million capital replacement reserve (CRR) to fund unexpected capital replacement requirements. The CRR may only be used for a Board-declared emergency only to fund unexpected capital replacement and maintenance requirements not already funded within the Transit Improvement Plan, in accordance with the SGRF, or to smooth large annual capital replacement expenditures to reduce net financing costs.
 - 3.3.1 The Board must approve the agency's use of the CRR by a two-thirds majority vote.
 - 3.3.2 If funds are drawn from the CRR, the agency must replenish the CRR with funds legally available for this purpose within a five-year period, or as soon thereafter as consistent with the voter-approved systems plans, to its prior level or a higher revised level adopted by the Board at the time that the CRR is drawn.
 - 3.3.3 The agency retains interest earnings on the CRR within the CRR account.
 - 3.3.4 The CRR is designated as internally restricted within the agency's financial statements, consistent with generally accepted accounting principles. The CRR is maintained and invested in accounts separate from other agency funds.
- 3.4 The CEO conducts an independent assessment of the adequacy of the SGRF at least once every five years.
- 3.5 Any change to this policy must be adopted by a two-thirds majority of the Board.

4.0 References

- 4.1 R72-1 Financial Policy
- 4.2 R2002-08 Budget Policy
- 4.3 R2004-14 and R2009-07 Asset Liability Management Policy
- 4.4 R1999-17 Allocation of Excess Revenues Policy

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on December 17, 2015.



Dow Constantine
Board Chair

ATTEST:



Kathryn Flores
Board Administrator

Resolution No. R2015-32
Policy Crosswalk: Proposed Revisions to Resolution No. R2007-26

| Existing Policy (Resolution No. R2007-26) | Proposed Policy (Resolution R2015-32) | Justification |
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| <p><u>Section 1.</u> A Capital Replacement Reserve (CRR) will be established within the agency's financial system and records.</p> | <p>1.0 Scope</p> <p>1.1 Establishes policy for agency enterprise asset management and funding necessary to keep agency assets in a state of good repair.</p> | |
| | <p>2.0 Definitions</p> <p>2.1 Replaceable assets: Assets recorded within the agency's fixed asset system with useful life less than 50 years.</p> | <p>Definition for replaceable assets added to the proposed policy.</p> |
| <p><u>Section 2.</u> The CRR shall be budgeted at a level sufficient to fund, together with associated interest earnings, replacement of assets at the end of their useful life and major maintenance requirements. Any deferment of capital replacement contributions from the schedule necessary to fully fund asset replacement and major maintenance requirements will require approval by two-thirds of the entire membership of the Sound Transit Board.</p> | <p>3.0 Policy</p> <p>3.2 The CEO will include in the annual Transit Improvement Plan a State of Good Repair Forecast (SGRF) of the total amount, by year over a rolling 40-year period, required for lifecycle maintenance and capital replacement to maintain all agency replaceable assets in a state of good repair.</p> <p>3.2.1 The agency's Board-adopted Transit Improvement Plan will include the first six years of funding for the SGRF within the capital replacement and maintenance program.</p> <p>3.2.2 Beginning in 2023, the forecasted and funded annual amounts in the Transit Improvement Plan (TIP) will not on average fall below the greater of \$50 million annually or</p> | <p>R2015-32 Section 3.2 replaces language in Section 2 of the current policy. Language requiring approval by two-thirds of the entire membership has been moved to R2015-32 Section 3.5</p> <p>R2015-32 Section 3.2.2 adds a provision to require the agency to fund the State of Good Repair Forecast (SGRF) for a six-year period in the Transit Improvement Plan.</p> |

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| | <p>two percent of the agency's estimated replaceable asset value for that year.</p> <p>3.2.3 The agency's long-term financial plan will include the full 40-year SGRF.</p> <p>3.2.4 The agency must use funds legally available for this purpose to fully fund the SGRF before funding expenditures for new capital facilities or expanded service.</p> <p>3.3 The agency shall maintain a minimum \$300 million capital replacement reserve (CRR) to fund unexpected capital replacement requirements. The CRR may only be used for a Board-declared emergency only to fund unexpected capital replacement and maintenance requirements not already funded within the Transit Improvement Plan, in accordance with the SGRF, or smooth large annual capital replacement expenditures to reduce net financing costs.</p> <p>3.3.1 The Board must approve the agency's use of the CRR by a two-thirds majority vote.</p> <p>3.3.2 If funds are drawn from the CRR, the agency must replenish the CRR with funds legally available for this purpose within a five-year period, or as soon thereafter as consistent with the voter-approved systems plans, to its prior level or a higher revised level adopted by the Board at the time that the CRR is drawn.</p> | <p>R2015-32 Sections 3.2.3 and 3.2.4 require the Board to include the SGRF in the long-term financial plan and prioritize it over capital and operating expenditures to the extent legally possible.</p> <p>R2015-32 Section 3.3 adds a provision to require the agency to maintain a \$300 million capital replacement reserve (CRR) and sets limitations and conditions for its use.</p> |
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| | <p>3.3.3 The agency retains interest earnings on the CRR within the CRR account.</p> <p>3.3.4 The CRR is designated as internally restricted within the agency's financial statements, consistent with generally accepted accounting principles. The CRR is maintained and invested in accounts separate from other agency funds.</p> | |
| <p><u>Section 3.</u> The CRR will be used only for replacement of existing capital assets that have reached the end of their useful lives, taking age, capacity and performance characteristics into consideration, or for major maintenance of capital assets to extend their useful life.</p> | | <p>R2015-32 Section 3.3 addresses allowed uses and restrictions for use of the CRR.</p> |
| <p><u>Section 4.</u> The CRR will be designated as internally restricted within the agency's financial statements, consistent with generally accepted accounting principles. The CRR will be maintained in accounts separate from other agency funds. Budgeted funds will be credited to the account at end of each fiscal year. Funds within the CRR will be invested in securities consistent with the agency's investment policies and of a duration to match their expected usage.</p> | | <p>R2015-32 Sections 3.3.3 and 3.3.4 replace language in Section 4 of the current policy. Restrictions on the investment of funds have been removed because they are procedural.</p> |
| <p><u>Section 5.</u> All interest earnings within the CRR will be credited to the CRR.</p> | | <p>R2015-32 Section 3.3.3 addresses interest earnings within the CRR.</p> |
| <p><u>Section 6.</u> All transfers from the Capital Replacement Reserve not for the purposes identified in Section 3 shall be approved by two-thirds of the entire membership of the Sound Transit Board.</p> | | <p>R2015-32 Section 3.3.1 restricts use of the CCR.</p> |

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| <p><u>Section 7.</u> The Chief Executive Officer will establish policies and procedures to allocate funds within the CRR and maintain a long-term capital asset management plan that (1) inventories all major agency capital assets; (2) identifies expected useful lives for all major assets; (3) identifies mid-life major maintenance requirements and schedules; (4) establish methodology and procedures for identifying lifecycle costs of capital assets; and (5) incorporates environmental sustainability measures into evaluation of capital replacement.</p> | <p>3.1 Sound Transit invests in, maintains and manages its physical assets and infrastructure to ensure safe, quality, cost-effective and sustainable ongoing provision of regional high-capacity transit services to the citizens of the Central Puget Sound.</p> <p>3.1.1 The agency operates and maintains its assets in a state of good repair that meets or exceeds the FTA's state of good repair and other regulatory requirements, as well as environmental, safety and customer service standards.</p> <p>3.1.2 The agency maintains a comprehensive asset management program and plan to ensure that these goals are achieved.</p> <p>3.4 The CEO conducts an independent assessment of the adequacy of the SGRF at least once every five years.</p> <p>3.5 Any change to this policy must be adopted by a two-thirds majority of the Board.</p> | <p>R2015-32 Section 3.1 consolidates and replaces language in Section 7 of the current policy.</p> <p>R2015-32 Section 3.4 adds a provision related to assessment of the SGRF.</p> <p>R2015-32 Section 3.5 replaces language previously included in Section 2 of the current policy.</p> |
| <p><u>Section 8.</u> The establishment of the reserve is not an authorization to expend funds for replacement of assets. Any such authorization shall be obtained through the processes contained in the agency's budget and procurement policies.</p> | | <p>R2015-32 removes language in Section 8 of the current policy because it is procedural.</p> |
| | <p>4.0 References</p> <p>4.1 R72-1 Financial Policy</p> <p>4.2 R2002-08 Budget Policy</p> <p>4.3 R2004-14 and R2009-07 Asset Liability Management Policy</p> <p>4.4 R1999-17 Allocation of Excess Revenues Policy</p> | <p>References to other Board policies have been added.</p> |