

RESOLUTION NO. R2018-23
Adopting a Budget Policy

MEETING:	DATE:	TYPE OF ACTION:	STAFF CONTACT:
Executive Committee	07/19/2018	Cancelled	Michael Trzupsek, Executive Director of Finance
Board	07/26/2018	Final Action	Ann Sheridan, Budget Director

PROPOSED ACTION

Adopts a new Budget Policy and supersedes Resolution No. R2002-08.

KEY FEATURES SUMMARY

- The Board last reviewed the budget policy in 2002. This revision focuses on improving transparency for the Board and public while streamlining budget development, monitoring and control processes.
- Key changes to the 2002 policy include:
 - Revised terminology to improve clarity.
 - Authority for the CEO to rebalance authorized project allocations to date by shifting annual project budget between the current and future years or between project costs phases. These changes will be reported in the adopted annual budget and adopted Transit Improvement Plan (TIP).
 - Removal of detailed administrative procedures and policy language that is included in other agency policies.
- The policy continues to give the Board authority over annual budget approvals and maintains strong controls over agency spending. Key elements of the policy include:
 - Board control over expenditures at the project cost phase level and total operating budget.
 - Limitation on total operating expenditures, which cannot exceed the amounts established in the Budget and TIP Resolution
 - Limitation on project expenditures, which cannot exceed the authorized project allocation to date approved for each project.
 - Board approval required for transfer of funds from the project contingency phase of the project budget.

BACKGROUND

The objective of this proposed action item is to update Sound Transit’s budget policies to reflect current practice. The current policies were adopted by the Board in 2002 and were structured to describe the organizational and financial framework in place at that time. Since 2002, the need for the CEO to manage projects with a multi-year as opposed to an annual time frame has become increasingly important due to the burden of asking the Board to approve each change between project cost phases.

The proposed revisions would affect 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.

The proposed policy supports the continued use of an annual budget and an annual Transit Improvement Plan (TIP).

The proposed policy also maintains the current Board practice of approving project budgets in phases until a baseline budget can be established. The budget terminology has been revised to improve clarity – authorized project allocation to date replaces the term lifetime budget, project amendment has been established to refer only to a change to established project budget phases or baseline, generally triggered by a cost overrun or underrun.

The proposed budget includes:

- Revenue and other financing sources;
- Project capital outlays and expenses;
- Operating expenses;
- Long-term debt principal repayment, interest and financing fees;
- Donations to other governments;
- Contributions to reserves; and
- Other costs, as directed by the Board.

The proposed TIP includes:

- Six years of annual cash flows for approved and proposed projects.
- Six-year forecast for transit mode expenses;
- Planned contributions to reserves;
- Cost estimates for projects specified in the voter-approved system plans; and
- Summary of proposed changes in authorized project allocations to date from the current year.

The CEO will be authorized under the policy to make technical and conforming changes, shift annual project budget authority between the current and future years to rebalance authorized project allocations to date, and transfer annual project budget between project cost phases of the same project. The adopted annual budget and adopted TIP report these one-time changes.

The proposed policy excludes a number of instructions included in previous budget policy (Resolution No. R2002-08). These include:

- The content and supplementary information to be included in the Adopted Annual Budget and TIP documents is no longer specified.
- References to the names of specific voter-approved programs, names of Board committees and others are excluded, so that there can be changes in the agency without the need to update the policy.
- Revenue budget by subareas is reported in the sources and uses summary of the agency's Financial Plan and so is no longer reported as such in the budget.
- The requirement to adhere to equity principles is captured by the Sound Transit 3 Financial Policies and are included as an appendix to the budget and are not duplicated in the budget policy.

FISCAL INFORMATION

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

PUBLIC INVOLVEMENT

Not applicable to this action.

TIME CONSTRAINTS

The agency must transact its business in compliance with Board policies. Since practices have deviated from the policy and new practices have been authorized by reference in the annual budget and TIP resolution, it is important that the Board authorize this policy revision before the Board adopts the 2019 budget and TIP.

PRIOR BOARD/COMMITTEE ACTIONS

Resolution No. R2002-08: Adopted revised budget polices, and superseding Resolution No. 98-4.
Resolution No. R98-4: Adopted detailed budget policies governing development, adoption, and modification of the agency's annual budget.

ENVIRONMENTAL REVIEW

KH 7/12/18

LEGAL REVIEW

AJP 7/12/18



RESOLUTION NO. R2018-23

Budget Policy

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority adopting a Budget Policy and superseding Resolution No. R2002-08.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under chapters 81.104 and 81.112 of the Revised Code of Washington (RCW) 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 Sound Transit district on November 5, 1996, November 4, 2008 and November 8, 2016, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, financial policies in voter-approved system plans establish certain guidelines and budget policies to be followed by Sound Transit; and

WHEREAS, in 2002 the Sound Transit Board adopted revised budget policies that detail the procedures, content, schedule and budget authority for Sound Transit annual budgets; and

WHEREAS, Sound Transit's organizational and financial structure has undergone changes since 2002; 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; and

WHEREAS, the budget and transit improvement plan demonstrate accountability for public commitments to voter-approved regional transit system plans; and

WHEREAS, a budget policy is necessary to establish the chief executive officer's (CEO) authority to develop Sound Transit's revenue, operating and project budgets for Board consideration of adoption, and a policy is necessary to set requirements for reporting to the Board on budget performance and control.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that Resolution No. R2002-08 is hereby superseded with a Budget Policy, which is hereby adopted as follows:

1.0 Scope

1.1 This policy applies to all Sound Transit revenue, operating and project budgets.

2.0 Definitions

2.1 Annual budget: A plan for the agency's revenue and expenditures for a fiscal year.

2.1.1 Proposed annual budget: The initial annual revenue, operating, and project budgets as submitted by the CEO to the Board for consideration.

- 2.1.2 Adopted annual budget: The proposed annual budget and associated revisions adopted by the Board before the beginning of the fiscal year, plus any one-time actions that this policy authorizes the CEO to take after the Board adopts the annual budget.
- 2.2 Annual project budget: The amount of project costs projected to be incurred during the budget year.
- 2.3 Authorized project allocation to date: The current Board-authorized spending ceiling for a project. For example, when the Board authorizes a change to an authorized project allocation to date, this action is not a project amendment.
- 2.4 Budget authority: The authority granted by the Board to spend a given amount of money for a certain purpose.
- 2.5 Capital outlay: An expenditure that results in the acquisition of, creation of, or addition to fixed assets.
- 2.6 Fiscal year: A 12-month period for calculating annual financial statements. Sound Transit's fiscal year is January 1 to December 31.
- 2.7 Operating expenses: Ongoing costs to deliver public transportation services and provide administrative support to the agency.
- 2.8 Project: A discrete body of work that has a scope, schedule, and budget approved by the Board.
- 2.9 Project amendment: A change to an authorized project allocation to date, typically due to a cost overrun or underrun.
- 2.10 Project cost phases: A defined set of categories to budget and track project costs.
- 2.11 Project phases: Distinct groupings of project activities, typically project development, design, and construction.
- 2.12 Project type: A category name used to identify projects of a similar nature, such as system expansion, enhancement, state of good repair, and administrative.
- 2.13 Reserve: Cash set aside to support unplanned expenditures, such as the deductible for an insured loss or a period of operating expenses in the case of lost revenues.
- 2.14 Transit improvement plan (TIP): The cumulative total of authorized project allocations to date for all active projects, six-year forecasts of operating expenses for each transit mode, and contributions to reserves.
 - 2.14.1 Proposed TIP: The initial submission of the TIP to the Board for review.
 - 2.14.2 Adopted TIP: The proposed TIP and associated revisions adopted by the Board, plus any one-time actions that this policy authorizes the CEO to take after the Board adopts the annual TIP.
- 2.15 Transit mode: A system for carrying transit passengers described by specific right-of-way, technology and operational features, such as light rail, commuter rail, bus or streetcar.

3.0 Policy

3.1 Authority

- 3.1.1 The Board adopts all revenue, operating, and project budgets, including any changes or amendments, with a two-thirds majority vote.
- 3.1.2 The CEO maintains a budget system, records and reports that are consistent with industry best practices and statutory requirements to align agency resources with the Board's objectives and the agency's mission.
- 3.1.3 The CEO maintains an agency project management oversight process to verify project readiness to advance through established project phases.

3.2 Budget development

- 3.2.1 The CEO submits a proposed annual budget and proposed TIP to the Board for the upcoming fiscal year no later than 60 days before the end of the current fiscal year.
- 3.2.2 The proposed annual budget includes annual forecasts for:
 - 3.2.2.a Agency revenues and other financing sources;
 - 3.2.2.b Project capital outlays and expenses;
 - 3.2.2.c Operating expenses;
 - 3.2.2.d Long-term debt principal repayment, interest and financing fees;
 - 3.2.2.e Donations to other governments;
 - 3.2.2.f Contributions to reserves. A reserve equal to two months of operating and maintenance expenses will be established. This reserve is in addition to any general bond reserves or reserves approved by the Board. Contributions to reserves do not constitute budget authority and require Board authorization to be spent.
 - 3.2.2.g Other costs, as directed by the Board, from time to time; and
- 3.2.3 The proposed TIP contains:
 - 3.2.3.a Annual planned cash flows for previously Board-approved and new requests for authorized project allocations to date, by project, project cost phase and subarea for a minimum of six years;
 - 3.2.3.b Six-year forecast for transit mode expenses;
 - 3.2.3.c Planned contributions to reserves;
 - 3.2.3.d Cost estimates for projects specified in the voter-approved system plans; and
 - 3.2.3.e Summary of changes in authorized project allocations to date from the prior year.
- 3.2.4 The agency prepares budgets on an accrual basis, consistent with how revenues and expenditures are recorded in the agency's financial system.

3.3 *Budget review and adoption*

- 3.3.1 Board committees review the proposed annual budget, proposed TIP, and any proposed revisions and make recommendations to the Board.
- 3.3.2 The Board conducts a public hearing of the proposed annual budget before considering adoption of the annual budget and TIP.
- 3.3.3 The Board adopts the annual budget and TIP before the beginning of the fiscal year.
- 3.3.4 Following Board adoption of the annual budget and TIP, the CEO is authorized to make technical and conforming changes, shift annual project budgets between the prior year and upcoming fiscal year, and shift authorized project allocations to date between project cost phases of the same project, with the exception of the project cost phase for project contingency. The adopted annual budget and adopted TIP report these one-time changes.

3.4 *Budget controls*


- 3.4.1 The Board controls and monitors revenue and other financing sources and budget appropriations. Board action is required to change the amounts established in the adopted annual budget or adopted TIP for the following:
 - 3.4.1.a Annual revenue and other sources of financing including grants, loans and bond issuances;
 - 3.4.1.b Total annual operating budget;
 - 3.4.1.c Annual project budgets by project type;
 - 3.4.1.d Authorized project allocation to date for each project;
 - 3.4.1.e Donations;
 - 3.4.1.f Non-cash expenses;
 - 3.4.1.g Contributions to reserves;
 - 3.4.1.h Long-term debt principal repayment, interest and financing fees;
 - 3.4.1.i Tax revenue collection fees; and
 - 3.4.1.j Any other budget appropriations specified in a Board action over which the Board chooses to retain specific control.
- 3.4.2 Board approval is required to:
 - 3.4.2.a Transfer budget between projects, between project and operating budgets, and to or from the debt service budget;
 - 3.4.2.b Transfer budget between project cost phases of the same project, except for the one-time action allowed in section 3.3.4;
 - 3.4.2.c Transfer funds from project contingency to any other project cost phase; and
 - 3.4.2.d Spend reserves, unless authorization is otherwise provided in bond indentures.

- 3.4.3 The CEO is authorized to:
- 3.4.3.a Exceed a project cost phase of an annual project budget provided that the authorized project allocation to date for that phase and any authorized procurement amounts are not exceeded.
 - 3.4.3.b Reallocate budget between department budgets, which may impact transit mode budgets, so long as the total annual operating budget is not exceeded.
 - 3.4.3.c Restate prior year capital outlays or operating expenses to comply with Generally Accepted Accounting Principles and Governmental Accounting Standards Board regulations.
- 3.4.4 The CEO must provide a quarterly report to the Board that compares actual financial performance to the current adopted annual budget.
- 3.4.5 The expenditure of agency funds requires budget authority and use of a valid procurement method.

4.0 References

- 4.1 Resolution No. R2016-16 Sound Transit 3 Regional Transit System Plan, Appendix B Financial Policies
- 4.2 Resolution No. R2015-32 Asset Management Policy
- 4.3 Resolution No. 78-2 Procurement and Delegated Authority Policy
- 4.4 Resolution No. R2018-24 Asset Liability Management Policy
- 4.5 Resolution No. R2009-24 Scope Control Policy

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on July 26, 2018.



Dave Somers
Board Chair

ATTEST:



Kathryn Flores
Board Administrator