

November 8, 2011

Attachment A

**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 planning to meet its commitments in this priority order: (1) debt service; (2) operation of the current transit system level; (3) capital needs of the current system level with first priority to revenue fleet replacements; and (4) operating and capital requirements of transit system expansion that is sustainable for at least ten years and is consistent with the policies and priorities of the adopted Strategic Plan for Public Transportation and the Metro Transit Service Guidelines. The fund management policies also guide the Transit Division's response when projected expenses significantly exceed forecasts or projected revenues are significantly lower than forecasts.
- B. Financial Planning** – Biennially, in the year of budget adoption, the transit program 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, future liabilities, claims, reserves, and debt service for all four sub-funds. For any operating grants, the financial plan will identify the costs of continuing to operate the service after the grant ends.
- C. Capital Planning** – The Transit Division will maintain a 10-year plan to identify and prioritize needed facility infrastructure and infrastructure improvement for transit facilities based on the current transit system level. These prioritized needs will be reflected in the six-year transit capital improvement program.

II. Fund Structure, Sub-Fund Balance Targets, and Reserves

Fund Structure – The Public Transportation Enterprise Fund has four sub-funds: Transit Operating, Revenue Fleet Replacement, Transit Capital, and Transit Bond.

- A. Operating Sub-Fund Balance Target** – To maintain sufficient funds for cash flow requirements and to fund unforeseen emergency operating expenses, the Transit Division will maintain minimum cash balances in the Operating Sub-Fund equal to one-twelfth of the annual operating budget, except for during the period 2009-2014, when the minimum cash balance can be reduced to an amount equal to one-twenty-fourth of the annual operating budget. For financial forecasting presentations, this amount will be required as a year-end Operating Sub-Fund target balance in all years.

- B. Transit Revenue Stabilization Reserve** – A Transit Revenue Stabilization Reserve will be maintained within the Operating Sub-Fund and shall consist of all undesignated fund balances. Funds in the Transit Revenue Stabilization Reserve shall be used to moderate future fare increases and to mitigate the impact of cost increases and revenue declines. Any funds remaining in the reserve after the Operating Sub-Fund Balance is restored are subject to appropriation.
- C. Revenue Fleet Replacement Sub-Fund Balance Target** – The Revenue Fleet Replacement Sub-Fund shall maintain a minimum balance sufficient to fund thirty percent of the projected fleet replacement costs for the entire revenue vehicle fleet. The Transit Division’s financial plans will include the identification of transfers of applicable revenue from the Operating Sub-Fund in amounts to support the Revenue Fleet Replacement Sub-Fund expenditures and balance target.
- D. Capital Sub-Fund Balance Target** – At a minimum, the Transit Division will maintain a positive balance in the Capital Sub-Fund.
- E. Transit Capital Project Reserve** – A Transit Capital Project Reserve will be maintained within the Capital Sub-fund to provide the resources necessary to fund capital projects and project commitments contained in the six-year capital improvement program. These projects and project commitments will include, but are not limited to, maintaining a fleet sufficient to meet the service level defined in the operating program, maintaining transit facilities in a state of good repair and consistent with the 10-year facility infrastructure plan outlined in section I.C., and providing for the new or replacement capital asset acquisition to support the adopted Strategic Plan and facility plans. The Capital Project Reserve target will be established such that the reserve combined with other anticipated revenues fully funds capital projects within the six-year period of the capital improvement program, including out year costs associated with projects that are included in the six-year capital improvement program. The Transit Division’s financial plans will include the identification of transfers of applicable revenue from the Operating Sub-Fund in amounts to support the Capital Sub-Fund expenditures and Capital Project Reserve. Transfers to the Transit Capital Project Reserve will be subject to appropriation.
- F. Bond Sub-Fund Balance Target** – The Bond Sub-Fund shall maintain a minimum balance sufficient to pay the following year’s net debt service and maintain sinking bond reserve requirements.

III. Revenue, Distributions, and Reimbursements

- A. Revenues** – Except for revenues that are required to be deposited into a specific Public Transportation sub-fund and revenues that reimburse a sub-fund for an expenditure made from that sub-fund, all revenues for the public transportation enterprise will be deposited in the Operating Sub-Fund. Unless revenues in the Operating Sub-Fund are restricted to an operating use, they may be transferred to the capital or revenue fleet replacement sub-funds, subject to appropriation.

B. Distribution of Sales Tax Revenue

1. For as long as the Limited Tax General Obligation (Public Transportation Sale Tax) Refunding Bonds, 2009 are outstanding, two-tenths of the nine-tenths transit sales tax will be deposited in the Two-tenths Sales Tax Revenue Receiving Fund and distributed to the Bond Sub-Fund, in an amount sufficient to pay principal and interest, plus any amount necessary to cover all bond costs. If any two-tenths sales tax revenues remain, twenty-five percent of the two-tenths of sales tax revenue shall be transferred to the Operating Sub-Fund and may only be used for operations and the remainder transferred to the Capital Sub-Fund and may only be used for capital purposes.
2. In the event the two-tenths Sales Tax revenues are insufficient to pay the principal and interest on the Limited Tax General Obligation (Public Transportation Sale Tax) Refunding Bonds, 2009, the seven-tenths of the transit sales tax revenues shall be transferred to the Bond Sub-fund in an amount sufficient to pay principal and interest on these bonds. Any remaining seven-tenths of the transit sales tax revenues shall be deposited in the Operations Sub-Fund.
3. Distribution of the sales tax outlined in III.B.1 to capital will first fund the requirements of the Revenue Fleet Replacement Sub-Fund and then will fund other capital requirements.

C. Expense Reimbursement –Any transit program services performed for other public or private organizations will recover all direct and indirect costs of the program, unless otherwise authorized by ordinance.

IV. Expenditures

- A. Operating Expenditures** – Projected funding of the Operating Sub-Fund from all sources will equal or exceed operating budget expenditures each year throughout the six-year financial plan. If the actual operating balance falls below the balance target, the balance will be replenished by funds from the Transit Revenue Stabilization Reserve.
- B. Capital Planning and Expenditures** – The financial plan will include expenditures, revenue estimates, and transfers from the Operating Sub-Fund based on an assumed level of accomplishment for the entire capital program, and will include long-term cash flow projections for the Capital and Revenue Fleet Replacement Sub-Funds and the Transit Capital Project Reserve. Use of long-term debt for capital needs shall be balanced against the objective of maximizing the amount of transit service provided. To maintain accurate estimates of future operating expenses, capital project plans will include estimates of added costs or savings resulting from the project.

V. Debt Management

- A. Debt Policy** – The Transit Division will use debt as appropriate based on economic benefit. Except for interfund borrowing, debt issued for transit purposes shall have level debt service payments to minimize the amount of interest paid over the life of the bonds. The Transit Division will not use long-term debt to finance current operations or an asset with a useful life of less than three years, and such long-term debt will not exceed the useful life of the assets being financed. The Transit Division may apply to the King County Executive Finance Committee for an inter-fund loan, which borrowing will be considered short-term borrowing and may be used for current operations or as a bridge loan for assets with a useful life of 20 years or more. Any inter-fund borrowing shall comply with applicable policy established by the Executive Finance Committee.
- B. Debt Service Coverage** – Debt service has a first and prior lien on revenues from the transit sales tax. The Transit Division will maintain a debt service coverage ratio, defined as the sales tax revenue divided by the debt service, of 1.5 from these revenues.

VI. Performance Measures

- A. Farebox Recovery Ratio** – The Transit Division will maintain a target of recovering a minimum of 25 percent of passenger related operating costs from farebox revenues for bus service. Pursuant to K.C.C. 4.150.130, vanpool fares will maintain a target of recovering 100 percent of the operating and capital costs, and at least twenty-five percent of the cost of administering the vanpool program. The farebox recovery ratio is one of many factors to be considered in evaluating fare proposals. Achieving a specified farebox recovery ratio is, by itself, neither sufficient reason for a fare increase nor for any particular level of increase.
- B. Access Fare Parity Ratio** – 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. The Transit Division will provide the annual projected ratios as part of financial information included during the budget adoption process.