

**SOUND TRANSIT
STAFF REPORT**

RESOLUTION NO. R2002-14

Establish a Baseline Budget for Agency Administration Costs

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

Contract/Agreement Type:	3	Requested Action:	3
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

- Establish a baseline budget of \$145 million for agency administration operating costs assigned to the Regional Fund 2002-2009.

ACTION

- Creates a \$145 million baseline budget 2002-2009 for agency administrative operating costs assigned to the Regional Fund to accurately reflect the agency's current project schedules, cost allocation system and long-term staff forecast.
- Establishes that the agency will maintain a cost allocation system in compliance with Generally Accepted Accounting Principles (GAAP) and the Office of Management and Budget's OMB-Circular 187.
- Establishes that all line-of-business (LOB) staff costs will be assigned directly to capital and operating projects and that corporate department staff costs will be assigned, as appropriate, to capital projects to accurately reflect the full costs of constructing capital assets and maintaining transit operations. The remaining corporate costs will be assigned to the Regional Fund.

KEY FEATURES

- Sound Move did not establish a policy for allocation of costs to the Regional Fund for agency administration.
- The agency now has a well-defined cost allocation system and long-term staffing plan updated for the current Board-approved capital and operating projects from 2002-2009.
- This action would establish a baseline budget for 2002-2009 of \$145 million for those agency administrative costs not allocated to the capital and operating projects as overhead.

- This action is fully funded within the agency’s current long-term financial plan and will not require any additional revenues or result in any additional costs to capital or operating projects.

BUDGET IMPACT SUMMARY

Project Description: Regional Fund Agency Administration

Projected Completion Date: 2009

Action Outside of Adopted Budget:	Y/N	Y Requires Comment
This Line of Business	NA	
This Project	NA	
This Phase	NA	
This Task	NA	
Budget amendment required	Y	Requires establishment of a new baseline budget 2002-2009.
Key Financial Indicators:	Y/N	Y Requires Comment
Contingency funds required	N	
Subarea impacts	N	
Funding required from other parties other than what is already assumed in financial plan	N	

N = Action is assumed in current Board-adopted budget. Requires no budget action or adjustment to financial plan

BUDGET DISCUSSION

This action would establish a baseline budget for agency administration assigned to the Regional Fund of \$145 million from 2002-2009.

REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS

Since 1998, the agency has preserved financial capacity within its long-term financial plan to cover all anticipated costs for agency administration. The new baseline budget is fully affordable within this budget and would not require any additional funding from subareas or other sources.

Under Sound Move Financial Policies the Regional Fund is funded by all agency interest earnings and contributions by each subarea. The contribution by each subarea shall not exceed 10% its total local taxes collected each year. This policy is still maintained under the new baseline budget with the agency’s current long-term revenue forecast.

M/W/DBE – SMALL BUSINESS PARTICIPATION

N/A

HISTORY OF PROJECT

Sound Move

Sound Move created a Regional Fund with the following programs: Phase II Planning, Research and Technology, Fare Integration, System-wide contingency and Agency Administration. The budget for Agency Administration was established at \$67 million (YOES). This budget was based on an initial staffing level of 50 Full-Time Employees (FTEs) plus \$15

million for start-up (information systems, Human Resources (HR) systems, insurance, office space and furnishings).

This initial estimate provided no information regarding which agency administrative costs were to be covered by the \$67 million budget. The Sound Move estimate did not detail which staff would be charged directly to the projects as overhead and which staff costs would be assigned to the Regional Fund.

1997-Present

The amount of staff costs allocated to the Regional Fund is a function of (1) Sound Transit staff levels; (2) Sound Transit's cost allocation system that assigns the costs for staff either to projects or to the Regional Fund); (3) the duration of Phase I capital project construction.

1) Long-term Staff Cost Forecasting

The agency maintains a long-term forecast for staff costs. This forecast was originally for the 10-year period from 1997-2006 and assumed near static staffing levels during that period. As the scope and magnitude of the Sound Move projects became clearer, the requirements for additional staff to adequately manage the projects grew. The necessity for robust project management, project control, community outreach, and contract and finance requirements became better defined from 1998-2000. By 2000, many of the agency's initial information systems, HR systems and facility costs were also better understood. In addition, the agency added staff to replace consultants in some key areas, which reduced total project costs (by reducing consultant charges to the projects), but did increase agency staff levels.

An additional key variable in determining the long-term cost for agency administration is the degree to which the agency will be able to reduce staff costs for Phase I as the projects near completion. The agency's current long-term staff model anticipates staff costs peaking in 2005-2006 and declining thereafter.

2) Evolution of Cost Allocation System

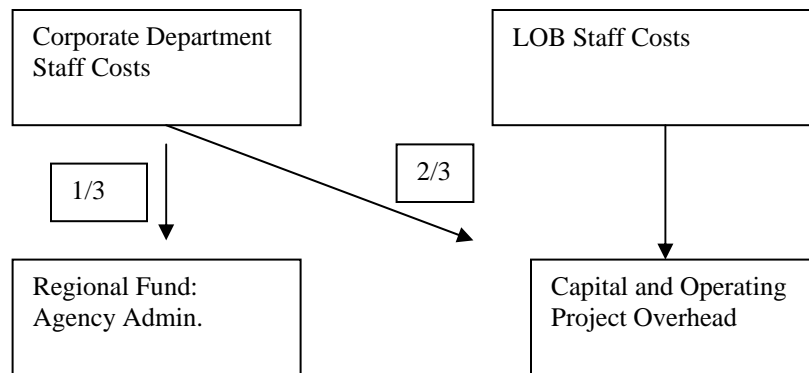
The costs for staff (salary, benefits, travel, training, facilities costs, consultant services, HR and information systems, etc) are assigned either to (a) capital and operating projects; or (b) the Regional Fund. Starting in 1997, the agency began working with its auditors and the Federal Transit Administration (FTA) to develop its cost allocation system. It was quickly determined that the costs for all staff working directly on capital or operating projects in the LOBs would be assigned to the projects as overhead. While the agency looked at allocating some fixed costs within the LOBs to the Regional Fund, this was determined to be inappropriate.

Having assigned all LOB staff costs to the projects, the agency then had to determine which staff costs within the corporate departments (Executive, Legal, Administration, Finance, Communications, and Board Administration) should be charged in whole or in part to the projects as overhead. The agency developed a cost allocation system that used "drivers" to determine how much of each division's costs would be assigned to the projects as overhead.

Each division is assigned a "driver(s)" that are indicative of the key activities of the group. Costs are then allocated to the LOBs based on their share of the "driver." For example, a driver for the accounting division might be "invoices processed." The total costs of the accounting department are allocated to each division based on its share of the agency's total invoices

processed. For instance, if in one month all the agency's invoices processed were for the Sounder Seattle-to-Tacoma project, then the entire accounting unit's staff costs would be charged to that project as overhead.

This system developed and evolved from 1997-2001 in response to feedback from the auditors and FTA, changes in Sound Transit's financial systems, development of project budgets, organizational changes and changes in project schedules. As the cost allocation has been refined, approximately two-thirds of corporate staff costs are assigned to the projects as overhead, with the remaining one-third assigned to the Regional Fund.



3) Duration of Phase I

The final variable in determining the costs assigned to the Regional Fund for agency administration is the duration of Phase I projects. The longer Phase I projects are under construction, the longer the agency will need to maintain corporate department staff to support the projects. With the extension of construction of Central Link Light Rail until 2009, the proposed baseline budget of \$145 million would cover Regional Fund administrative costs through that period.

Summary

The agency's long-term cost model using assumptions in the three key areas described above indicates cost will be assigned to the Regional Fund as follows:

Summary of Actual and Forecasted Administrative Costs Allocated to Regional Fund				
	1997-2001 Actual	2002-2006 Forecast	1997-2006 Estimate	2002-2009 Forecast
Costs Allocated to Regional Fund	\$33 m.	\$98 m.	\$132 m.	\$145 m.
Amount Funded with Current Agency Financial Plan	\$33 m.			\$145 m.
Funding gap	Zero			Zero

Funding

Since 1999, the agency had maintained a placeholder in its long-term financial plan in anticipation of higher agency administrative costs than were estimated in Sound Move. The financial plan is reviewed by the Board annually, but not adopted. The placeholder is adjusted annually to match the agency's long-term staff cost model. The plan also reserves funds for agency administrative capital costs. As a result of this placeholder, the Board could adopt the proposed new baseline budget for Regional Fund administration without impacting existing subarea budgets or funding plans.

History of Administrative Cost Issue

Motion or Resolution Number	Summary of Action	Date of Action
<u>Resolution No. R2001-17</u>	<u>Board adopts a zero growth staff budget for 2002.</u>	<u>12/01</u>
Resolution No. R2000-17	<p>Adopted 2001 Budget Budget indicated that "The agency's current trajectory for administrative costs would exceed the original 10-year \$55 million (95\$) budget. However, the agency has made significant progress in reducing the growth of agency costs in the Adopted 2001 Budget and will be working with the Board during....subsequent budget cycles to insure that agency administrative costs are limited to those absolutely necessary to effectively implement the Sound Move program and Board policies."</p>	11/00
Resolution No. R99-33	<p>Adopted 2000 Budget Budget indicated that "Adopted 2000 Budget still contains the \$55 m. (95\$) 10-year budget for costs for agency administration directly related to managing the capital projects"</p>	11/99
Resolution No. R98-49	<p>Adopted 1999 Budget. Budget indicated "if the full costs of support staff were assigned to the Regional Fund, the costs would exceed the original \$55 m. (95\$) Sound Move estimate.</p>	12/98
Sound Move	Established a budget of \$55 m (95\$) for Regional Fund Agency administration to fund 45 FTEs and \$15 m. of agency start-up costs.	5/96

CONSEQUENCES OF DELAY

While no immediate Board action is required, however, the agency's cost allocation system and long-term staffing plans are now sufficiently well defined to allow Board action on this issue.

ALTERNATIVES

The Board could elect not to adopt a new baseline cost estimate, or adopt a smaller baseline costs estimate, and have the Executive Director either reduce corporate department staffing levels or increase overhead charges to capital projects.

RECOMMENDATION(S)

Staff recommends adoption of resolution as drafted.

REGIONAL PARTNERSHIP AND COOPERATION

N/A

PUBLIC INVOLVEMENT

N/A

LEGAL REVIEW

JDW 7/9/02

SOUND TRANSIT

RESOLUTION NO. R2002-14

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority adopting a baseline budget for agency administrative costs assigned to the Regional Fund.

WHEREAS, by Resolution No. 72, adopted May 31, 1996, the Sound Transit Board adopted financial policies to govern the financing and implementation of the Ten-Year Regional Transit Plan and to specify budgetary guidelines for providing subarea equity in accomplishing the same; and

WHEREAS, on November 5, 1996, at a general election held within the Central Puget Sound Regional Transit Authority's (Sound Transit) district, the voters approved local-option taxes to support implementation of the Ten-Year Regional Transit Plan; and

WHEREAS, Appendix A: Detailed description of facilities and costs: The Ten Year Regional Transit Plan established a \$55 million (1995\$) budget for agency administration within the 2002 Budget:

WHEREAS, Sound Transit's Adopted Budgets for 1999, 2000, 2001 and 2002 recognized the likelihood of higher agency administrative long-term costs for the Regional Fund due to the evolution of the agency's cost allocation system, updated long-term staffing plan and extended Phase 1 capital project construction duration;

WHEREAS, in anticipation of these higher administrative costs, the agency has allocated funds since 1999 within its long-term financial plan to fund these costs;

WHEREAS, the Sound Transit Board under Resolution No. R2001-17 adopted the agency 2002_Budget with a "zero growth" staff budget and directed the Executive Director to provide additional information on long-term agency administrative costs to the Board;

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority as follows:

Section 1. Sound Transit shall maintain a cost allocation system in compliance with Generally Accepted Accounting Principles (GAAP) and the Office of Management and Budget's (OMB) Circular 187.

Section 2. As allowable under GAAP and OMB Circular 187 and updates or amendments thereto, the line-of-business staff costs will be fully assigned to capital and operating projects. Other department staff costs will be allocated to capital and operating projects to properly reflect the costs of constructing capital assets and operating transit services.

Section 3. A baseline budget of \$145 million (YOES) is hereby established for administrative operating costs assigned to the Regional Fund from 2002 until the completion of Phase I capital projects scheduled for 2009.

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



Ron Sims
Board Chair

ATTEST:

Marcia Walker
Marcia Walker
Board Administrator