



Resolution No. R2020-24

Adopting a new Budget Policy

| Meeting: | Date: | Type of action: | Staff contact: |
|----------|------------|-----------------|---|
| Board | 11/19/2020 | Final action | Tracy Butler , CFO Ryan Fisher , Director FPA & Budget, Finance Jenny Stephens , Deputy Director FPA & Budget, Finance |

Proposed action

Adopts a budget policy and supersedes Resolution No. R2018-23.

Key features summary

- This proposed policy will reduce the number of actions presented to the Board and Committees for administrative changes.
- Key changes to the 2018 policy include:
 - Delegating authority to the CEO to shift budget between project cost phases of the same project, as needed to execute any Board-approved project, provided that all criteria below are met:
 - Project is within Board authorized project allocations;
 - Project type is within annual budget adopted by the Board; and
 - Transfers between phases are up to \$1 million per project, within fiscal year.
 - Updating required elements to be included in the Transit Improvement Plan (TIP).
 - Improving language clarity without impacting the meaning or intent of terms in use.
- The proposed policy preserves Board authority over annual budget approvals and controls over agency spending. Key elements of the policy include:
 - Limiting total operating expenditures, which cannot exceed the amounts established in the annual Budget and TIP Resolution.
 - Limiting project expenditures, which cannot exceed the authorized project allocation approved for each project and the total annual expenditures for projects cannot exceed the total amount for each project type established in the annual Budget and TIP Resolution.
 - Requiring Board approval to transfer funds from the contingency project cost phase for any system expansion project.

Background

The Board last approved the budget policy in 2018 through Resolution No. R2018-23. At that time, the policy revision improved transparency for the Board and the public while streamlining budget development, monitoring, and control processes.

The objective of this proposed action is to update Sound Transit's budget policy to address the need to transfer budget between project cost phases of the same project. Under the current policy, Board approval is required. The need for the CEO to manage such budget transfers has become increasingly important due to the burden of such administrative actions on the Board's time.

During 2018 and 2019, there were five budget actions requiring the Board's approval to transfer budget between project cost phases of the same project:

| Project Name | Project Type | Description | Amount \$ |
|---|------------------|---|-------------|
| APPROVED IN 2018 | | | |
| Hilltop Tacoma Link Extension | System Expansion | Transferred surplus phase budgets within baseline budget. | \$1,685,000 |
| Downtown Seattle and Regional Mobility Improvement Project | Enhancement | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$55,893 |
| APPROVED IN 2019 | | | |
| Operations and Maintenance Facility Light Rail Vehicle Lift | Enhancement | Realigned phase budgets due to change in installer in 2018. | \$204,578 |
| Bike Parking Program | Enhancement | Administrative adjustments to shift budget from capital to expense project phase. | \$487,667 |
| Downtown Seattle and Regional Mobility Improvement Project | Enhancement | Realigned phase budgets based on design needs. | \$157,000 |

- None of these actions changed the authorized project allocation.
- Hilltop Tacoma Link would have still gone to Board under the proposed policy change because the transfer amount was greater than \$1 million.

However, as the agency's assets mature and operations continue to grow, the number of non-system expansion projects are also growing. In 2020, budget transfers between project cost phases of the same project are needed for ten individual projects:

| Project Name | Project Type | Description | Amount \$ |
|--|----------------------|---|-----------|
| FOR APPROVAL IF UPDATED BUDGET POLICY IS NOT APPROVED IN 2020 | | | |
| Sounder Maintenance Base | System Expansion | Shifting phase budgets to reflect realignment efforts. | \$110,000 |
| Downtown Seattle Transit Tunnel Capital Improvements | State of Good Repair | Administrative adjustment to shift property title reports to Right of Way. | \$9,129 |
| Wheel Truing Machine | State of Good Repair | Phase budgets were based on preliminary assumptions; no engineering staff time was anticipated, but 2 hours needed. | \$157 |

| | | | |
|--|----------------------|--|----------|
| Kinkisharyo Light Rail Vehicle System Upgrade | State of Good Repair | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$16,000 |
| Puget Sound Emergency Radio Network | State of Good Repair | To separate preliminary engineering from final design which had previously been budgeted together. | \$30,000 |
| SeaTac Airport Wrong Door | Enhancement | To separate final design from construction which had previously been budgeted together. | \$42,047 |
| Operations and Maintenance Facility Link Control Center Upgrades | Enhancement | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$40,552 |
| Operations and Maintenance Facility Renovations | Enhancement | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$10,000 |
| Operations and Maintenance Facility Expanded Parking | Enhancement | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$21,956 |
| Operations and Maintenance Facility Light Rail Vehicle Lift | Enhancement | Phase budgets were based on preliminary assumptions; limited certainty for individual phases. | \$99,762 |

- None of these actions require changes to the authorized project allocation.
- None of these projects will have to go to the Board under proposed policy change as they meet all three criteria for CEO to authorize phase budget transfers.

There is a separate action for Board consideration, Resolution No. R2020-25, that seeks approval of these ten budget transfers if the Board does not approve this action to amend the budget policy.

Fiscal information

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

Public involvement

Not applicable to this action.

Time constraints

Due to financial concerns precipitated by the COVID 19 pandemic, the Board is currently considering a realignment of the agency's extensive capital program. Immediate approval of the updated budget policy allows budgets to be moved between project phases to facilitate the use of internal project resources to advance current projects as the agency awaits the Board's realignment decisions.

Prior Board/Committee actions

Resolution No. R2018-23: Adopted a Budget Policy and superseded Resolution No. R2002-08.

Resolution No. R2002-08: Adopted revised Sound Transit budget policies and superseded Resolution No. 98-4.

Resolution No. R98-4: Adopted policies for the Authority.

Environmental review – KH 11/13/20

Legal review – AJP 11/13/2020



Resolution No. R2020-24

Budget Policy

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority adopting a Budget Policy and superseding Resolution No. R2018-23.

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 2018 the Sound Transit Board adopted revised budget policies that detail the content, schedule and budget authority for Sound Transit annual budgets; 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. R2018-23 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 allows in section 3.3.4.
- 2.2 Amendment: A change to the adopted annual budget or a change to an authorized project allocation due to an overrun or underrun. A planned change to an authorized project allocation for the purpose of advancing project phases does not constitute an amendment.
- 2.3 Annual project budget: The amount of project costs projected to be incurred during the budget year.
- 2.4 Authorized project allocation: The current Board-authorized spending ceiling for a project.
- 2.5 Budget authority: The authority granted by the Board to spend a given amount of money for a certain purpose.
- 2.6 Capital outlay: An expenditure that results in the acquisition of, creation of or addition to fixed assets.
- 2.7 Fiscal year: A 12-month period for calculating annual financial statements. Sound Transit's fiscal year is January 1 to December 31.
- 2.8 Operating expenses: Ongoing costs to deliver public transportation services and provide administrative support to the agency.
- 2.9 Project: A discrete body of work that has a scope, schedule and authorized project allocation approved by the Board.
- 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 authorized project allocations for all active projects.
 - 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 authorized project allocations and annual 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 Contributions 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; and
 - 3.2.2.g Other costs, as directed by the Board, from time to time.
- 3.2.3 The proposed TIP contains:
 - 3.2.3.a Annual planned capital outlays for previously Board-approved and new requests for authorized project allocations by project, project cost phase and subarea for a minimum of six years;
 - 3.2.3.b Cost estimates for projects specified in the voter-approved system plans;
 - 3.2.3.c Summary of changes in authorized project allocations from the prior year; and
 - 3.2.3.d Forecast of state of good repair 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.
- 3.2.4 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 years, and shift authorized project allocations between project cost phases of the same project, with the exception of the project cost phase for system expansion 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 the adopted annual budget and TIP. Board approval is required to:

3.4.1.a Transfer budget between projects, between project and operating budgets and to or from the debt service budget;

3.4.1.b Transfer an authorized project allocation from the contingency project cost phase of a system expansion project to any other project cost phase of the same project;

3.4.1.c Spend reserves, unless authorization is otherwise provided in bond indentures; and

3.4.1.d Change the amounts established in the adopted annual budget or adopted TIP for the following:

- Annual revenue and other sources of financing including grants, loans and bond issuances;
- Total annual operating budget;
- Annual project budgets by project type;
- Authorized project allocation for each project;
- Contributions to other governments;
- Non-cash expenses;
- Contributions to reserves;
- Long-term debt principal repayment, interest and financing fees;
- Tax revenue collection fees; and
- Any other budget appropriations specified in a Board action over which the Board chooses to retain specific control.

3.4.2 The CEO is authorized to:

3.4.2.a Transfer an authorized project allocation between project cost phases of the same project provided that the total transfer value per project does not exceed \$1,000,000 per fiscal year and subject to the restrictions in section 3.4.1. This authority is in addition to the action allowed in section 3.3.4.

3.4.2.b Allow spending to exceed an annual project budget provided that the following are not exceeded:

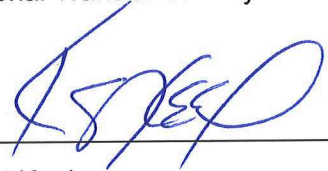
- Authorized project allocation for that project;
- Adopted annual budget for the project type, as outlined in the adopted annual budget; and
- Any authorized procurement amount.

- 3.4.2.c Reallocate budget between department budgets provided the total annual operating budget is not exceeded.
- 3.4.2.d Restate prior year capital outlays or operating expenses to comply with Generally Accepted Accounting Principles and Governmental Accounting Standards Board regulations.
- 3.4.3 The CEO must provide a quarterly report to the Board that compares actual financial performance to the current adopted annual budget.
- 3.4.4 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. R2018-40 Procurement, Agreements 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 November 19, 2020.



Kent Keel
Board Chair

Attest:



Kathryn Flores
Board Administrator