

Sound Move -- The 10-Year Regional Transit System Plan

As adopted May 31, 1996

Financial policies

Introduction

Purpose

The RTA Board adopted an initial framework for the financing of Sound Move, by setting local tax rates, focusing on minimal debt financing, requiring conservative projections for federal and state funding, and establishing a definition by which equity will be measured. The Financial Policies reflect the RTA Board's policy intent for implementing the financial framework, for ensuring that the ten-year construction program is completed on time and within budget, and for providing the tools to the Board to appropriately manage toward and respond to future conditions.

Legal responsibilities

In adopting these Financial Policies, the RTA Board recognizes certain legal responsibilities. Existing state law grants all legislative and policy authority to the RTA Board, and does not allow the Board to abrogate, transfer or delegate such authority to other agencies or to the five subareas within the RTA District. Consequently, all funds collected by or provided to the RTA, including local tax revenues, federal and other government grants, bond proceeds, fare box revenues, interest earnings, and private development revenues, may be disbursed only with approval of the RTA Board. Priorities for disbursements will be determined within the RTA's annual budgetary process, which by law requires a favorable vote by two-thirds of the RTA Board.

Similarly, the RTA Board recognizes that bonds issued by the RTA will be secured by a pledge of repayment through local taxes. When the bonds are issued, the RTA will enter a binding contract with its bondholders that requires a first claim against local tax revenues for repayment. Stated differently, bondholders will have a legal priority to the RTA's local tax revenues, above and beyond any commitment the RTA may wish to make with its subareas that no subarea will pay another subareas' debt. Therefore, these Financial Policies reflect the RTA's commitment to subarea equity while maintaining the flexibility necessary to manage the financing of the system plan on a consolidated basis and within legal constraints.

Financial Policies

Equity

Definition of equity

- a. Equity will be defined as utilizing local tax revenues and related debt for projects and services which benefit the subareas generally in proportion to the level of revenues each subarea generates. This equity principle will apply to the ten-year system plan as well as all future phases. The Financing Plan for Sound Move reflects this equity principle by providing a budget for each of the five RTA subareas, comprised of the subarea's share of local taxes, bonding capacity, farebox proceeds and an assumption for federal funding. The five subareas are defined as Snohomish County, North King County/Seattle, East King County, South King County, and Pierce County. While the Financing Plan will be managed by the RTA Board on a consolidated basis, the RTA will establish an accounting system by which to report individual subarea performance.
- b. The RTA Board agrees, therefore, that the facilities, projects and services identified in the adopted Ten-Year System Plan represent a reasonable definition of equity for purposes of satisfying both public policy concerns and statutory requirements. The subarea budgets will serve as the starting point for evaluating the equity principle during the ten year construction period.

Implementation policy

a) Subarea budgets:

1. The RTA Financing Plan will provide a budget for each of the five RTA subareas, comprised of the subarea's projected share of local taxes, bonding capacity and farebox proceeds, and an assumption

for federal funding, and related expenditures.

2. Local taxes will be allocated to subarea budgets based on actual sales tax and motor vehicle excise tax receipts collected by subarea and within the RTA District. Annual RTA and subarea budgets will incorporate updated forecasts based on these actual receipts. A percent of local taxes from each subarea will be allocated to the Regional Fund to fund system-wide costs (see Regional Fund below).
3. Government funding will be allocated in two ways:
 - o Government funding received that is general in scope for facilities and/or services that appear in several subareas will be allocated to subarea budgets proportional to the subareas' percentage share of total RTA local taxes collected and projected.
 - o Government funding that is received for a specifically determined facility and/or service will be allocated to the subarea(s) which benefits from the facility and/or service.
4. Miscellaneous revenues, such as those generated through private-public partnerships, advertising and terminal concessions, will be allocated to subarea budgets based on subarea investment in the facility and/or service from which the revenue is generated. Because these revenue sources carry a high level of uncertainty, projections will not be included in the adopted Financing Plan or in the original subarea budgets.
5. Bonding capacity will be allocated based on a subarea's ability to repay the debt service after covering operating and maintenance costs, and consistent with the RTA's debt service coverage ratio policy (see Debt financing capacity below).
6. The subarea expenditures will be allocated in terms of the facilities and services to be provided, their projected costs and project contingencies, associated operating costs, debt service, and reserves for debt service, operations and maintenance, and capital replacement. The allocation of expenditures for facilities and services that cross subarea boundaries will be made by the RTA Board with consideration to subarea benefits and priorities.

b) Monitoring function:

1. The RTA will establish an accounting system by which to report performance against subarea budgets. This monitoring and reporting function will be incorporated into the RTA's annual budgeting process.
2. The RTA will establish an independent audit function to oversee its monitoring and reporting of subarea budgets.
3. The RTA will appoint a citizen oversight committee to monitor RTA performance (see Public accountability below)

c) Adjustments to subarea budgets:

1. The RTA will establish a process by which subarea budgets can be adjusted, based on current revenue and expenditure forecasts. Since the subarea budgets will be included within the RTA's general budget, adjustments to subarea budgets will occur every year as a step in the RTA's annual budget adoption, which requires a two-thirds favorable vote of the RTA Board. Adjustments to subarea budgets can include additional priority projects and/or services within that subarea should funding be available. This adjustment process recognizes that some fluctuation in revenues and expenditures against forecasts will occur
2. For those cases where a subarea's actual and projected expenditures exceed its actual and projected revenues and funding sources by 5 percent or greater, and/or where unforeseen circumstances occur which would result in an inability to substantially complete projects within such subarea's plan, the RTA Board shall take one or more of the following actions:
 - o Correct the shortfall through use of such subarea's uncommitted funds and/or bond capacity which is available to the subarea; and/or

- o Scale back the subarea plan or projects within the plan to match a revised budget; and/or
- o Authorize a vote of the RTA district on a revised ballot measure.

Regional fund

Funding Sources

The RTA will establish a regional fund that will be funded through a percent of local tax revenues contributed by each of the five subareas and interest earnings. The percent of local tax to be contributed will be set in the adopted Financing Plan, and then reviewed and set annually through the RTA budget process. It will not exceed ten percent per year during the ten-year system plan period.

Uses for regional fund

The regional fund will be used to fund system-wide elements. These elements include:

- a. The RTA's fare integration program.
- b. The RTA agency administration, including:
 - o research and development of new technology;
 - o planning and environment analysis for a future capital program.
- c. Contingencies that may occur due to shortfalls in actual revenues collected or funding obtained, and/or overruns in actual expenditures relative to cost estimates provided that the funding of such contingencies shall not diminish the RTA's ability to fully implement its fare integration program.

Debt financing capacity

Legal definition of RTA debt financing capacity

- a. The RTA's enabling legislation defines the RTA's capacity for issuing general obligation debt at one and one-half percent of the value of the taxable property within the boundaries of the RTA District (and with approval of three-fifths of voters voting with the RTA District, up to five percent of the value of the taxable property within the district's boundaries). There is no dollar limit for revenue indebtedness.
- b. However, through the following policies, the RTA will implement a substantially more conservative use of debt financing.

Calculation of debt financing capacity

The RTA recognizes that its future bondholders will hold first claim against its local sales tax and motor vehicle excise tax revenues as the pledged sources for repayment. However, the RTA's debt financing capacity will be calculated on a more conservative basis, by evaluating all revenues and deducted total operating expenses for net revenues available for debt service.

Debt service coverage ratio policy

- a. The RTA further recognizes the importance of a conservative debt service coverage ratio, both to insure a conservative use of debt and to secure favorable financing costs.
- b. For planning purposes, the RTA's debt service coverage ratio policy will be set at an average coverage ratio of 2.0x for net revenues over annual debt service costs, not to fall below 1.3x in any single year. Prior to bond issuance, the RTA will establish the appropriate debt service coverage ratio to incorporate into its bond covenants.

Uses of debt financing

- a. Debt financing in the context of the ten-year construction program covers two distinct types of borrowing, the first related to long term debt financing, and the second related to short term debt

financing.

- b. Short term debt financing (with terms of ten years or less) is expected to be used primarily to bridge the gap between the necessary timing of expenditures and the anticipated receipt of revenues.
- c. The use of long term financing (with terms of more than ten years) is expected to be limited to capital and related costs for portions of the program that have a useful life in excess of the term of the debt. Long term financing should be preserved for those aspects of the program for which other sources of funds are not likely to be available (e.g., due to timing or eligibility constraints) or for which a local match is required to access such source of funds.
- d. The RTA will reserve a portion of its legal debt financing capacity to provide a potential funding source by which to address unforeseen circumstances. This reserve is defined at five percent of the capital costs reflected in the ten-year construction program.

Allocation of RTA debt capacity to subareas

- a. The amount of long-term debt financing used to benefit each of the subareas will be based on each subarea's ability to repay debt after covering operating costs.
- b. While the above policy prescribes the use of debt financing within subarea budgets, the RTA Board will manage the agency's debt capacity on a consolidated basis.

Debt management guidelines

The RTA Board has established, and will maintain, specific guidelines for managing the authority's debt use.)

Setting priorities for expenditures

Based on the ten-year system plan, the RTA will develop a six year capital improvement budget, to be updated every two years as a step in the annual budgeting process and which will require adoption by a two-third favorable vote of the RTA Board. The RTA will establish guidelines for its budgeting process and criteria by which to establish priorities for expenditures.

Public accountability

To insure that the ten-year construction program development and implementation occurs within the framework and intent of these policies, the RTA will:

- a. Conduct an annual comprehensive performance audit through independent audit services;
- b. Appoint and maintain for the ten-year construction period a citizens' oversight committee, charged with an annual review of the RTA's performance audit and financial plan, for reporting and recommendations to the RTA Board.

Future phases

Voter approval requirement

The RTA Board recognizes its authority to fund Sound Move's future operations, maintenance and debt service as well as any future phase capital program through a continuation of the local taxes initially authorized by the voters. However, in its commitment to public accountability, the RTA Board pledges that any second phase capital program which continues local taxes for financing will require approval by a vote of those citizens within the RTA District.

Sales tax rate rollback

Should voter approval for a future phase capital program not be forthcoming, the RTA Board will initiate two steps to roll back the rate of sales tax collected by the RTA.

- a. First, the RTA will first initiate an accelerated pay off schedule for any outstanding bonds. Second, the RTA will implement a tax rollback to a level necessary to pay the accelerated schedule for debt service on outstanding bonds, system operations and maintenance, fare integration, capital

replacement, and agency cost.

- b. Once all debt is retired, the RTA will implement a tax rollback to a level necessary to pay for system operations and maintenance, fare integration, capital replacement and agency administration. .

Financial policies review

These Financial Policies will apply to future capital programs. They will be reviewed for applicability prior to any submittal of a future capital program to the RTA District voters.