

1.0 PURPOSE

The Financial Policies described herein are designed to provide a comprehensive framework for the management of financial resources of the Charlotte Area Transit System (CATS). They provide guidelines for decision-making by the CATS governing board, the Metropolitan Transit Commission (MTC), and management on how financial resources shall be utilized to fulfill the mission of the transit system, meet obligations and protect the public interest.

1.1 OBJECTIVES

- A. Cost effective allocation and use of CATS financial resources in achieving the system's mission.
- B. Compliance with applicable Federal, State and Local laws, regulations and guidelines governing transit funding.
- C. Use of sound business and accounting practices in managing CATS financial affairs.

1.2 LEGAL AUTHORITY

- A. Transit Governance Interlocal Agreement dated February 16, 1999, from *inter alia* the following:
 - Article 43 of Chapter 105 of the North Carolina General Statutes (Sessions Laws 1997, ch. 417, sec 1) (Local Government Public Transportation Sales Tax Act).
 - N.C.G.S. 160A-460 *et seq.* (Interlocal joint exercise of powers)
 - N.C.G.S. 160A-311 *et seq.* (Municipal public enterprises)
 - N.C.G.S. 153A-274 *et seq.* (County public enterprises).
- B. Federal Requirements (U.S. Department of Transportation, Federal Transit Administration).
 - OMB Circular A-87.
 - 49 CFR, Parts 18 (The Common Rule), 21, 23, 24, 663
 - FTA Circular 5010.1C, (including References)



C. State Requirements

- The Local Government Budget and Fiscal Control Act.
- A compilation of laws, excerpted from the N.C. General Statutes, that identifies basic legal requirements under which local governments must operate.

1.3 SCOPE

The Financial Policies established herein cover major categories of CATS financial activity. CATS Chief Executive Officer shall submit a proposed Transit Program to the MTC by January 31 of each year. The MTC shall approve the Program by April 30 of each year; after which the Charlotte City Council must approve the Transit Program. If either of the dates fall on a weekend, the preceding Friday shall prevail. Upon approval, the Charlotte City Council shall fund the Transit Program through budget and/or project ordinances.

The annual Transit Program shall consist of the following:

- Transit Operating Fund delineating operating income, reserves and operating expenditures for the provision of transit services.
- Transit Debt Service Fund delineating income and expenditures associated with the Transit Debt Service Program.
- Transit Capital Fund delineating income and expenditures for the transit Capital Investment Plan.

1.4 FISCAL YEAR

The City's Fiscal Year is July 1 through June 30.

2.0 TRANSIT OPERATING PROGRAM

2.1 PURPOSE

The Transit Operating Fund is CATS general operating fund, which will be used to account for all financial transactions required for the current operation of the public transportation system. The two primary components of this fund will be:

A. Operating Income (Income Sources)



Approved by: Metropolitan Transit Commission
Responsible Division: CATS Administration

B. Operating Expense

Annually, the difference between Operating Income and Operating Expense is the OPERATING BALANCE.

2.2 OPERATING INCOME

Operating Income is defined as funding source/s to be used for approved annual operating costs. The primary sources of operating income are as follows:

A. Maintenance-Of-Effort

Annual appropriation from governmental units within Mecklenburg County that engaged in public transportation in fiscal year 1998.

The fixed amounts, equal to the units' net local expenditures for public transportation systems in fiscal year 1998, shall be received by the City of Charlotte's Finance Department by December 31 of each year from

- City of Charlotte \$ 18,400,000
- Mecklenburg County \$ 181,866
- Town Of Huntersville \$ 17,500

B. Passenger Fares

Actual revenue received from riders on all modes of the public transportation system operated or paid for by CATS.

C. Service Reimbursement

Contractual reimbursement from public/private agencies for special public transportation services, governmental units outside of Mecklenburg County for extensions of CATS public transportation service into surrounding counties and/or communities.

D. Sales Tax Revenue

One half percent (1/2%) of local sales and use taxes approved for public transportation systems in Mecklenburg County by the General Assembly of North Carolina Sessions Law - 1997. The tax is distributed during the year to three eligible parties, i.e. City of Charlotte, Mecklenburg County and the Town of Huntersville. The Transit Governance Interlocal Agreement requires each



eligible party to transfer its sales tax receipts to CATS within five business days of receipt of the distribution from the State of North Carolina.

E. Interest Income

Income from the investment of reserve funds and other unused fund balances in the CATS Transit Fund/s. Investment will be handled by the City of Charlotte's Finance Department in accordance with North Carolina G.S. 159-30. The City's investment policy of CATS funds shall minimize credit and market risks while maintaining a competitive yield.

F. Operating Assistance Income

Annual operating assistance from the State of North Carolina, Department of Transportation, the United States Department of Transportation, Federal Transit and/or Highway Administration, the United States Department of Homeland Security and/or other governmental agency in support of operating expenses for new and ongoing direct transportation and/or transportation related services.

G Other Operating Revenue

Any other sources of revenue for CATS approved by the Metropolitan Transit Commission and/or the Charlotte City Council. Examples include salvage from sale of assets, concessions, rents, advertising proceeds, joint development payments and reimbursements.

2.3 OPERATING EXPENSES

Operating Expenses are defined as the day-to-day costs incurred for public transportation service delivery, administrative overhead, and other changes and/or adjustments. Program for such expenditures shall be approved by the Metropolitan Transit Commission in accordance with section 1.3 The Charlotte City Council funds the programs through budget and/or project ordinances.

A. Transit Service Delivery Costs

This expense category shall include:

- Base Service -



Services that have been previously approved by the MTC and are in effect at the time the annual Transit Program is presented each year.

- Expanded Service -
Additional services to be implemented and funded in the ensuing fiscal year. Services in this category shall be included in a 5-Year transportation Countywide Services Plan, which will be periodically reviewed.

B. Administrative Overhead Costs

Direct and Indirect costs that are incurred for common or joint purposes in support of one or more Transit Service Delivery or capital programs. Costs are allocated to programs based on allocation methods which comply with Federal, State and local guidelines.

C. Adjustments

This expense category may include transfers to other funds (i.e. Transit Capital Fund and/or other miscellaneous adjustments).

2.4 OPERATING BALANCE

Annually, the difference between Operating Income and Operating Expense is the Operating Balance. The Operating Balance is utilized to fund a portion of the Capital Program.

2.5 TRANSIT OPERATING PROGRAM: FINANCIAL PERFORMANCE POLICY OBJECTIVES

The following Financial Performance Policy Objectives are established for guiding the development of the annual program and budget and for measuring and/or controlling operating expenses and revenues.

A. Operating Ratio

The percentage of annual operating expense that is covered by revenue generated through service operations including passenger revenue, operating fund interest earnings, service reimbursement and miscellaneous income from rents, concessions and advertising. This ratio shall not be allowed to fall below 20%.



B. Cost Growth

The annual increase in the cost of delivering a current unit of service shall be equal or less than the rate of inflation for Transportation as identified by the U.S. Department of Labor, Bureau of Labor Statistics Data. A unit of service is defined as one revenue hour. Cost per revenue hour is derived by dividing annual service delivery cost by total annual revenue hours of service.

A significant new service program (e.g. implementation of light rail service) shall be identified separate from this calculation for the first full year of operation. From the second year forward, new program costs will be included in the base Cost Growth calculation.

C. Administrative/Overhead Cost

Administrative costs in support of direct services shall not be higher than 15% of Transit Service Delivery costs.

D. Passenger Per Hour

The number of passengers per revenue hour on fixed route and demand response bus services is a measure of system productivity. Systemwide bus passengers per revenue hour shall be maintained at a level greater than or equal to 20 passengers per hour.

E. Debt Service Coverage Ratios

Debt service coverage ratios establish a guide for levels of annual operating costs relative to current and future debt service costs. The performance objective for Net debt service coverage is that the Operating Balance shall be greater than 1.15 times the annual debt service cost.

The net debt service coverage ratio is calculated as follows:

- i) Operating Income less Operating Expense equals the Operating Balance.
- ii) Operating Balance divided by the annual debt service costs equals net debt service coverage ratio.

The performance objective for Gross debt service coverage ratio (i.e. Annual Sales Tax/Annual Cumulative Debt Service Cost) shall be maintained at a minimum of 3.0 times.

The maintenance of debt service coverage ratio together with other performance measures provides multiple measures for the soundness of CATS financial plans.

Note: The above financial performance measures are established as policy objectives for the MTC and CATS management to strive to achieve in managing the affairs of the transit system and may be temporarily suspended, temporarily modified or amended upon management review.

2.6 GENERAL POLICIES

A. Interest Income

The City of Charlotte Finance Department shall invest the cash balances in CATS Transit Fund in accordance with North Carolina G.S. 159-30.

All investments shall be insured or registered or shall be securities held by the City and/or its agents in the City's name. The City's investment of CATS funds shall minimize credit and market risks while maintaining a competitive yield.

B. Annual Net Operating Proceeds

Operating Income less Operating Expense less Debt Service Cost shall determine CATS Annual Net Operating Proceeds that may be utilized for capital investments or transferred to the Capital Reserve Fund as approved by the MTC in the annual Transit Program.

C. Reimbursements for Delivery of Service

- Outside Mecklenburg County

Governmental units outside of Mecklenburg County shall reimburse CATS for service delivery in those areas. Any such cost reimbursement will be determined on a case-by-case basis considering the extent to which the service is designed to serve Mecklenburg County residents; the degree to which the service benefits a particular group or organization; and



whether the service exceeds CATS service standards and/or fare policies. For services designed to serve residents outside Mecklenburg County, CATS will cover a portion of the incremental operating cost of the service up to a maximum of 50% in recognition of the reduction in vehicular traffic on Mecklenburg County roadways. The MTC shall approve any such service and its associated reimbursement requirement prior to CATS entering into any contractual agreement to provide the service.

- Activity Center Circulation Services

Transit services providing circulation and distribution within activity centers or specific geographic areas located within Mecklenburg County will be provided in accordance with the CATS Service Policy. Any cost reimbursement for such services will be determined on a case-by-case basis considering the degree to which the service is designed to benefit a specific group of stakeholders and whether the service exceeds CATS service standards and/or fare policies. Stakeholders may be required to reimburse CATS for up to 100% of the annual revenue service costs of the service. The MTC shall approve any such service and its associated reimbursement requirement prior to CATS entering into any contractual agreement with the stakeholders to provide the service.

- Special Service Requests

Non-routine requests for transportation services by public and/or private groups will be provided in accordance with CATS Service Policy.

D. Fare Policy

Effective September 1st 2001, the MTC approved Fare Policy, a modest increase in fare levels is recommended every two years to ensure that fare revenues keep pace with inflation and reflect a fair-share contribution by riders to the costs of operating the transit system.

An increase of either \$0.10 (ten cents) or the percentage 2-year increase in inflation (whichever is higher) is recommended for



the base cash fare every two years effective fiscal year 2004. Fares for all other services shall likewise be adjusted to maintain their relationship to the base cash fare.

Fare increases will be included in the Transit Operating Program which must be approved by the MTC.

E. Management Reporting Requirements

The Chief Executive Officer of CATS shall provide the Metropolitan Transit Commission with the following financial reports:

1. An annual management report that will present fiscal year end results using the best available but preliminary/unaudited financial information for the just ended fiscal year;
2. A mid-year management report that will utilize audited information from the prior fiscal year as well as best available information of mid year results for the current fiscal year.
3. A quarterly summary report on CATS financial status.
4. A monthly report, as required, on any major events or trends that impact financial performance.

The Annual, Mid-Year and Quarterly reports will include ridership and operating performance information as well as financial information.

3.0 DEBT SERVICE PROGRAM

3.1 The Debt Service program includes payments on short or long-term debt (annual debt service costs) associated with financing of capital assets for the transit system.

3.2 The main components of the Transit Debt Service Program will be:

- Bus & Rail/Amenities/Facilities Program: Debt service costs associated with the purchase of buses, rail cars, other rolling stock, equipment and real estate not associated with the development of the Rapid Transit Program.
- Rapid Transit New Starts Program: Debt service costs associated with the development and build out of New Starts, Small Starts or other rapid transit development programs.
- Other: Any other transit related programs.



4.0 TRANSIT CAPITAL PROGRAM

- 4.1 The Transit Capital Investment Plan describes capital expenditures to be incurred to meet capital needs arising from long-term plans, asset maintenance or other capital needs. It sets forth each project in which CATS will be involved and specifies the resources estimated to be available to finance the projected expenditures. The CATS CEO shall submit the proposed Capital Investment Plan to the MTC by January 31 of each year. The MTC shall approve the program by April 30 of each year; after which time the capital program is submitted to the Charlotte City Council for approval. If either of the dates fall on a weekend, the preceding Friday shall prevail.

Upon approval of both boards, the Charlotte City Council shall fund the Program through budget and/or project ordinances.

- 4.2 The Transit Capital Program will be used to account for the planning/design, acquisition, construction and reconstruction/rehabilitation of major capital facilities and equipment. It may include Federal and State grants as well as local funds to be used for capital acquisition and construction with and without the benefit of grant funding including transfers from the Annual Net Operating Balance, project-related reimbursements, debt financing or other sources of capital funding.

4.3 CAPITAL INCOME SOURCES

CATS will strive to obtain income for its capital program from the following sources:

A. Federal Grants

Contributions of cash from the Federal Government which can be used/expended for specified purposes. These types of grants are usually restricted by the grantor for the acquisition and/or construction of fixed assets, maintenance and/or state of good repair of the assets and capitalized operating and maintenance costs. There is normally a local match required for this type of income.

B. State Grants

Contributions of cash from the State of North Carolina. These types of grants may be utilized for capital improvement programs and operations purposes. The local match for this type of incomes varies dependent on the type of grant award.



C. Joint Development Proceeds/Contributions

Special sale, lease or other arrangements with project partners for the use of or construction of facilities; income from naming rights of transit facilities; etc., shall be included in this income category.

D. Net Operating Balance

Annual Operating Income less Annual Debt Service Cost less Annual Operating Cost is defined as Net Operating Balance and may be utilized for the Capital Investment Program or transferred to the Reserve Fund Balance.

E. Special Payments

Any other sources of income, which will be utilized for funding the CATS capital program.

F. Debt Financing

A specified sum of money (face value or principal amount) borrowed with a written promise to repay at a specified day/date in the future. All or a substantial portion of the interest on this money may be included in the face value of the security. This money shall be borrowed for the purposes of funding the acquisition and/or construction of fixed assets and for the expansion or maintenance of assets.

4.4 CAPITAL EXPENDITURES

Capital Expenditures are defined as expenditures incurred to meet capital needs arising from the CATS long-term plan, asset capital maintenance or other capital needs. It sets forth each project in which CATS may be involved and specifies the resources estimated to be available to finance the projected expenditures.

A. Capital Investment Plan

There shall be four (4) main components in CATS Capital Investment Plan:

- Bus/Bus Amenities/Facilities. Current and new equipment and facilities, e.g. Park-n-Ride Lots, Bus Facilities, Intelligent



Transit Systems, etc., and capital maintenance of these assets shall be included in this category.

- Rail/Amenities/Facilities
Current and new rail equipment and maintenance of these assets shall be included in this category.
- Other Capital
Non-revenue equipment, Safety & Security and Technology.
- Rapid Transit: Major Investment/Environmental Studies, Preliminary Engineering, Right-Of-Way Acquisition, Construction and Purchase of Revenue Equipment for the new rapid transit systems in the corridors and the future capital maintenance of these assets shall be included in this category of expense.

B. Capital Expenditure

Items/acquisitions that have a useful life in excess of one year and an acquisition cost of greater than or equal to \$5,000.

Direct and eligible indirect costs, which are related and add value to a capital project, shall also be defined as capital expenditures.

C. Debt Service Payments

The principal, interest, issuance costs and other payments on short or long-term debt.

4.5 TRANSIT CAPITAL FUND : PERFORMANCE POLICY OBJECTIVES

A. Pursuit Of Grant Financing

CATS shall seek to obtain maximum Federal and State financing by pursuing all appropriate funding available for public transportation systems.

B. Project Benefits Measurement

For rapid transit projects, Transportation System User Benefit (TSUB) indices will be developed and analyzed in accordance with Federal Transit Administration guidelines and requirements to provide an assessment of the benefits provided by the project and any alternatives being considered.



C. Maintenance of Assets (Vs. System Expansion)

A portion of the annual Capital Investment Plan will be allocated to the proper maintenance of transit capital assets including regular replacement of revenue vehicles and equipment and the rehabilitation or replacement of facilities.

D. Capital Investment

An amount equal to or greater than 20% of Sales Tax Revenue shall be budgeted each fiscal year and allocated to the Debt Service and Capital Programs.

E. Unrestricted Fund Balance

The unrestricted fund balance at the end of the fiscal year will be maintained at a minimum of \$100 million. The level of unrestricted fund balance will be evaluated annually and any changes below the minimum amount must be approved by the MTC prior to adoption of the annual transit program in March of each year.

The unrestricted fund balance serves as a contingency fund against precipitous increase in costs; provides funds available to support the Capital Program; and provides an internal hedge against certain existing and potential new debt service costs. Several factors dictate the maintenance of a significant fund balance, including, the challenges of the establishment of an expanded mass transit system, the size and complexity of the Capital Program, the timing of receipt of Federal and State capital grants and the impact on Sales Tax collections as changes occur in underlying economic conditions.

The annual fiscal year end unrestricted fund balance will be reported when the annual audit is completed.

4.6 CAPITAL PROGRAM FINANCING

Pursuant to current N.C. State Statutory authority, the City of Charlotte is the issuing entity for the debt and all financings will be issued in compliance with City debt policies, financial practices established by the City for management of its various credit entities and will require the approval of the North Carolina Local Government Commission.



A. Balanced Strategy

Funding of the Transit Capital Program shall be a balanced and will endeavor to fund capital needs for a combination of sources including

- Pay-As-You-Go (PAYGO)
- Grants from Federal/State/Other Sources
- Debt Finance and Special Loans

B. Funding strategy will emphasize the use of PAYGO as a means to meet local program funding requirements with debt used as a secondary source. The level of PAYGO funding will be dependent on a number of factors including availability of funds from Sales Tax and other sources, the appropriate levels of retained fund balances, economic and other factors.

C. Federal Formula and State Matching Funds

Federal 5307 funds and State matching grants for these Federal grants will be utilized (1) first to pay annual debt service costs on eligible Certificates of Participation; (2) any balance will be utilized for payment of other capital projects.

D. Types of Debt Financing:

As of July 1, 2007 NC law provides for three borrowing methods for the funding of capital and grant anticipation needs:

- General Obligation Bonds: Authorized by voters who signify their willingness to pledge the taxing power of the City of Charlotte to pay the debt service costs.
- Certificates of Participation (COPS) in Installment Payment Contracts: Asset backed financings that pledge the asset as the only security if installment payments are not made. Used for acquisition of municipally owned assets.
- Grant Anticipation Notes: Financing for project cash flow purposes backed by guaranteed funding from the Federal and/or State Governments.

ii) Railroad Rehabilitation & Improvement Financing Loans (RRIF) Loans issued by the Federal Railroad Administration for rail line, facility, safety and equipment.

E. CATS Debt Policy:

- Principal maturity for debt will be linked to asset life and will not exceed thirty (30) years.
- Variable rate or other short term maturing debt may be issued for capital purposes in anticipation of receipt of approved Federal and/or State grants, with the goal of repaying a portion or all of the debt issued upon receipt of funds.
- Issuance of debt must be linked to:
 - a) Adequate encumbrance capacity to let contracts for the entire capital program in the most cost effective sequence.
 - b) Cash requirements flow.
 - c) Fund Balance (per 4.5E) to guard against anticipated/unanticipated risks.
- Sales Tax revenue will be used for the payment of annual debt service costs.

4.7 GENERAL POLICIES

A. Joint Development Projects

(Specific financial policies based upon CATS Joint Development Policies will be added at a later date).

B. Reimbursements/Cost Sharing

1) Outside Mecklenburg County Service Improvements

CATS will not pay for any portion of the incremental capital cost for the extension of any rapid transit service outside Mecklenburg County or any subsequent capital improvements to such a service. Counties outside Mecklenburg County must cover any incremental capital costs for their service(s) and may, on a case-by-case basis, be required to contribute to capital costs incurred by CATS.

2) Cost Sharing

Capital improvements designed to benefit a specific stakeholder or organization that is in excess of CATS normal design standards and policies will be subject to cost sharing arrangements. Stakeholders and/or benefiting organizations



may be required to reimburse CATS up to 100% of the incremental cost of the capital improvement.

C. Management Report Requirements

The Chief Executive Officer of CATS shall provide the Metropolitan Transit Commission with an annual report on CATS actual versus budget performance. The report for the prior fiscal year, i.e. July 1 thru June 30, shall be presented at an MTC meeting. Refer to Section 2.6.E. of this document.

5.0 PERIODIC REVIEW AND AMENDMENT

- 5.1 The Financial Policies delineated herein shall be subject to review and revision by the MTC at least every three (3) years. This does not preclude the MTC from revising specific policies included herein or from adding policies should the MTC determine that the best interest of the public and/or CATS would be served by making such a revision.
- 5.2 Amendments or revision to these financial policies may be initiated or proposed by any member of the Metropolitan Transit Commission or by the Chief Executive Officer of CATS.
- 5.3 Proposed amendments or revisions to these Financial Policies shall be subject to review and study by the Citizens Transit Advisory Committee
- 5.4 (CTAG). CTAG shall make recommendation on any proposed amendment or revision to the MTC.
- 5.5 The MTC must approve any amendment or revision by majority vote before said amendment or revision shall become official policy of CATS.