

1. PURPOSE

The purpose of these policies is to provide a strategic framework for the prudent management of the financial resources of Capital Metropolitan Transportation Authority (“CapMetro”), to facilitate public access to information and examination of performance, and to encourage the use of best practices in financial accounting, budgeting, and planning. CapMetro has a fiduciary duty to the community to manage finances over the long term in a way that balances community and customer needs with the long-term financial sustainability of CapMetro. Sound financial policies most directly help to ensure long-term budgetary and service level solvency, as well as financial flexibility.

2. OVERVIEW

CapMetro is subject to the budgetary control provisions of the Texas State statute governing Metropolitan Rapid Transportation Authorities, Transportation Code, Section 451 (the “Code”). One of CapMetro’s primary responsibilities is to ensure compliance with the budgetary requirements set forth by the Code and to establish an effective process of financial planning and budgeting. In addition to the budgetary controls defined in the Code, the CapMetro Board of Directors (the “Board”) has adopted additional financial policies that further enhance the control and utilization of resources. The following sections describe these financial controls and policies.

3. GENERAL PROVISIONS

CapMetro will establish accounting practices that conform to generally accepted accounting principles as set forth by the authoritative standard-setting body.

An annual audit will be performed by an independent certified public accounting firm in accordance with Code Section 451.451, and an annual comprehensive financial report (ACFR) shall be issued no later than six months following the end of the fiscal year.

The independent certified public accounting firm shall report the results of the annual audit to the Board’s Finance, Audit and Administration Committee no later than sixty days after the issuance of the ACFR. The Chief Financial Officer shall be responsible for establishing processes to ensure timely resolution of audit recommendations, if applicable.

CapMetro shall provide its annual share of contributions to retirement plans in accordance with actuarial recommendations.

Investments shall be made prudently in conformance with CapMetro’s Investment Policy and state statute. All grants and other federal and state funds shall be managed to comply with the laws, regulations and guidance of the grantor.

A five-year financial forecast shall be prepared annually projecting revenue and expenditures. The forecast shall be used as a planning tool in developing the following year’s budget and five-year capital improvement plan.

A financial forecast that spans a longer planning horizon shall be prepared at least every five years, or more frequently if dictated by changing conditions or priorities. The long-range financial forecast shall be developed in conjunction with CapMetro’s comprehensive service plan to evaluate whether estimated funding sources are sufficient to address service priorities and capital needs over the planning period.

The Board shall adopt a budget for the coming fiscal year as required by Code Section 451.102 of the Code, and a five-year capital improvement plan as required by Code Section 451.132, no later than its September Board meeting. The Board shall hold a public hearing on the proposed budget before adopting the budget and shall make the proposed budget available for public review at least 14 days prior to the date of the hearing.

4. STRATEGIC PLAN

The Board shall adopt and annually reevaluate a strategic plan that establishes CapMetro’s mission and goals and summarizes planned activities to achieve the mission and goals in accordance with Section 451.135 of the Code.

The strategic plan will set policy and service priorities that drive development of the budget and five-year capital improvement plan, and guide allocation of resources in the budget. The budget and capital improvement plan should outline key initiatives that CapMetro plans to achieve through the expenditure of public funds that are consistent with the goals and objectives adopted by the Board in its strategic plan. The strategic plan should align with the regional metropolitan planning organization’s long-range transportation plan as appropriate. CapMetro department directors should develop annual work plans with performance measures that support the strategic plan and submit them to their respective business unit Executive Vice Presidents for review.

5. BUDGET DEVELOPMENT AND FORECASTING

CapMetro will prepare its budget and financial forecasts in accordance with key criteria that are consistent with state statutes and Board policy:

- To the extent possible, ongoing operations will be funded by current and ongoing sources of revenue. New, unrestricted revenue should first be applied to support existing programs prior to funding new or expanded programs.
- The budget and financial forecasts must include operating and capital spending.
- The budget and financial forecasts must show cash and working capital balances, including the proceeds of any anticipated cash flow borrowing, sufficient to pay with reasonable promptness all costs as incurred.
- The budget and financial forecasts should strive to achieve fare levels sufficient to meet CapMetro's recovery ratio goals as set out separately in its Fare Policy.
- The budget and financial forecasts shall be based upon sound financial practices and incorporate assumptions and projections that are reasonable and prudent.
- Prior to undertaking a capital project, all ongoing operational and maintenance costs shall be identified and included as part of the overall program plan.

The operating and capital budget shall serve as the annual financial plan for CapMetro. The budget document will serve as the policy document of the Board for implementing its goals and objectives. The budget shall provide management and staff with the resources necessary to accomplish the Board's determined service levels.

The Chief Financial Officer shall annually prepare a draft balanced operating and capital budget for consideration by the President and Chief Executive Officer (the "CEO") prior to submission to the Board. The budget document should include relevant measures of CapMetro's performance.

6. ACCOUNTING BASIS OF THE BUDGET

CapMetro's operating budget is prepared in a manner consistent with its financial statements, which are prepared on the accrual basis of accounting. The budget shall exclude depreciation, amortization and unrealized gains or losses resulting from the change in fair value of investments. These calculations are performed solely for financial statement reporting purposes to be in compliance with generally accepted accounting principles.

CapMetro shall maintain a chart of accounts consistent with the Federal Transit Administration's financial reporting requirements.

7. BUDGET CONTROL, ACCOUNTABILITY AND MONITORING

Budget accountability rests primarily with individual departments. Department directors and the Finance Department shall review budget variances on a monthly basis. Significant budget variances will be further evaluated by the Finance Department, the respective department director and business unit Executive Vice President to determine whether remedial action is required. If remedial action is required, the Finance Department will make recommendations to the CEO and Deputy CEO to address the variance.

Section 451.103 of the Code states that an authority may not spend for operations in excess of the total amount specified for operating expenses in the annual budget. CapMetro maintains budget control at the departmental level for purposes of operational spending. Section 451.133 of the Code states that an authority may not spend for capital improvements in excess of the total amount allocated for major capital expenditures in the annual budget. CapMetro maintains budget control at the project level for capital expenditures.

Except as provided below, total expenditures may not exceed that which has been approved by the Board without a budget amendment following the process set out in state statute and this policy. Any net increase in CapMetro's budget after approval by the Board requires a public hearing and Board approval.

To ensure compliance with state statute, quarterly reports on operating expenses and capital expenditures shall be shared with the Financial, Audit and Administrative Committee of the Board. These reports should be shared as soon as practicable after quarter close. Such reports will also include information on revenue and other funding sources. The reports will highlight any significant variations from the budget and whether remedial action is required to address identified budget variances. The Finance Department, working with department directors and business unit Executive Vice Presidents, will report year-end financial results to the Board as part of the monitoring and reporting process.

8. BUDGET AMENDMENTS AND TRANSFERS

A department may request a budget amendment during a fiscal year. The request for a budget amendment should demonstrate such strategic or operational necessity that it cannot or should not wait until the next annual budget process. The Finance Department, working with senior management, will first determine that existing budgeted funds within the requesting department or within the scope of CapMetro's total operating budget or capital budget are not available to fund the budget amendment request before initiating the amendment process.

In no case will the amount of any budget amendment result in an increase in the total budget that exceeds the amount of revenue available to support total budgeted expenditures without

the availability of reserves or fund balance sufficient to cover the amount of the budget amendment and without the approval of the Board. The Board may authorize the use of reserves when necessary through the budget or budget amendment process in compliance with its Reserves and Contingencies Policy. In the event of an emergency, it is the Board's priority to process a budget amendment expeditiously. Under state law, the Board may amend the annual budget by order after public notice and a hearing. No budget amendment will put the overall financial health of CapMetro at financial risk.

A budget transfer that moves budgeted funds between accounts within a department or between departments may be processed by the Finance Department after receiving justification and approval from the appropriate department director(s). No increase in agency headcount beyond levels laid out in the budget will occur without approval of the CEO. No budget transfer will be made from contingency to the capital budget or the operating budget without approval of the CEO. The Board will be notified in writing of all budget transfers that cumulatively exceed \$150,000 no later than the next quarterly financial report following the transfer.

9. REVENUE

Sound revenue policy affects all the components of fiscal stability. Ongoing provision of services cannot be achieved without sufficient funding. CapMetro's primary sources of funding come from sales taxes, fares, and federal grants. CapMetro will attempt to diversify its revenue base and limit its dependence on one or only a few revenue sources. It is the policy of CapMetro to charge fees for services when permissible and reasonable.

CapMetro will pursue new grant opportunities but will carefully review financial support of programs that require commitments continuing beyond funding availability. CapMetro will strive to maximize grants, loan interest programs and other intergovernmental sources to help fund capital needs.

10. LONG-RANGE FINANCIAL PLANNING

CapMetro shall prepare and submit a five-year financial forecast to the Board for review. The forecast should reflect structural balance based on projections of available resources and program expenditures. Multiyear operating and capital cost projections shall be updated each year to help evaluate the impact on resources. Program priorities and critical needs that cannot be funded within estimated resources should be identified for Board consideration.

An economic outlook should accompany the annual investment report to help gauge changing economic conditions and potential regulatory and legislative mandates.

CapMetro will prepare the financial forecast based on detailed assumptions and plans for each program element. Major assumptions include program service levels, ridership, vehicle needs, anticipated availability of revenue, and estimated costs of inflation. Assumptions used to develop the projections will be disclosed as part of the report provided to the Board.

11. CAPITAL BUDGET AND CAPITAL IMPROVEMENT PLAN

The capital budget should clearly account for amounts budgeted for each of CapMetro's planned capital projects, including sources of funding. Departments should provide information on proposed capital projects each year, including purpose, expected benefits, estimated funding sources and implementation costs. All ongoing operational and maintenance costs should be identified and included in the appropriate department budget.

As projects are implemented, significant budget variances should be reported to the Board quarterly in the financial report. Comprehensive capital project status reports should be shared with the Board at regular intervals in coordination with the Finance, Audit and Administrative Committee Chair's input on what frequency is currently appropriate. The comprehensive capital project status reports should include updates on major capital projects, including information on project completion, work completed compared to spending, and identification of any contract management concerns. To assist with reporting on capital projects, CapMetro will track capital projects using a consistent method, including the baseline budget and subsequent changes to the budget if applicable, contract awards, contract changes, expenditures to date and planned completion dates.

The Board shall adopt and annually reevaluate a five-year capital improvement plan that links to CapMetro's strategic planning goals and reflects transit industry best practices. The public will be provided the opportunity to review and comment on the capital improvement plan as part of the Board's budget adoption process.

The plan will align with, and support, the regional metropolitan planning organization's long-range transportation plan as appropriate. The capital improvement plan should include, at a minimum, the following elements:

- prioritization of capital projects anticipated over a five-year period;
- description of planned capital projects, including project category and scope;

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- financing of capital projects, including implications for ongoing operational costs;
 - sources of funding for projects, including local and federal funds;
 - policies for capital planning, estimating costs, tracking spending, approving capital projects, cost-benefit analyses, participation of historically underutilized businesses and reporting on projects; and
 - impact on ridership, customer service and similar indicators of performance.

12. TRANSPARENCY AND AVAILABILITY OF FINANCIAL INFORMATION

It is the goal of CapMetro to promote accountability and transparency in all of its financial activities. CapMetro will make every reasonable effort to ensure that all financial data described in these policies is made available to the general public in easily accessible forms in a timely manner, electronically and in a format that meets the needs of persons with disabilities.

13. REFERENCES

Reserves and Budgetary Contingency Policy
Fare Policy
Investment Policy
Capital Improvement Plan Policy



**BUDGET AND FINANCIAL
PLANNING POLICY**
Board of Directors

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