

Board Policy No. 17 Budget Development

1. Summary

This policy establishes guidelines for North County Transit District's (NCTD) development and monitoring of its annual operating and capital improvement program budgets pursuant to Resolution No. 19-06, dated October 17, 2019. This policy sets standards for sound budgetary practices and fiscal performance.

2. Budget Policies

- a. *Budget Period.* The budget is developed annually for each fiscal year, which begins on July 1 and ends on June 30 of the following calendar year.
- b. *Balanced Budget.* NCTD must adopt an annual balanced budget where total revenues are equal to or exceed total expenses to support service, operations, and capital decisions. It should be NCTD's goal to achieve a long-term structurally balanced budget, where ongoing expenditures are supported by ongoing revenues. A structurally balanced budget should be achieved through efficiencies, reductions to the expenditure base, and/or ongoing revenue enhancements, and does not rely on reserves or the use of one-time revenues for ongoing operating expenditures.
- c. *Coordination with Metropolitan Planning Agency.* NCTD should coordinate its long-range financial planning with the San Diego Association of Governments (SANDAG), the county metropolitan planning organization (MPO), which provides regional guidance in planning, programming, and construction to ensure an integrated regional transportation framework for San Diego County.
- d. *Basis of Accounting.* Accounting records must be maintained in accordance with generally accepted accounting principles (GAAP) as established by the Government Accounting Standards Board (GASB). NCTD must use the accrual basis of accounting for the operating budget, with the exception of depreciation expense, which is not budgeted. Accrual accounting records financial events based on economic rather than cash activity. Revenues are recognized when they are earned and realized, regardless of when actual payment is received. Expenses are recognized when incurred, regardless of when such expenses are paid.
- e. *Single Enterprise Fund.* NCTD will utilize a single enterprise fund as allowed under GASB Statement No. 20. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the expenses, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered through user charges and grants.
- f. *Revenues.* Revenues should be estimated conservatively bearing in mind federal, state, and local conditions, considering new sources, and assessing fare and route changes as needed. One-time revenues generally should be used for one-time expenses or capital investments.
- g. *Expenses.* Expenses should be budgeted to support effective transportation by identifying priority services, establishing service levels, delivering efficient service, and ensuring fiscal stability producing long-term effectiveness.

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- h. *Inter-governmental Relations.* NCTD should maintain good relationships with other government bodies to encourage shared use of facilities, joint purchases, and shared cost of service delivery so regional transit services, inter-connections, and accessibility will be improved, unfunded legislative mandates will be opposed, and transit-promoting initiatives will be supported.
- i. *Debt.* Short and long-term debt should be used appropriately, for valid business reasons including temporary cash flow, emergency shortfalls and urgent unfunded capital improvements, provided the Board authorizes the debt by resolution and an analysis of the fiscal impact is completed and presented to the Board as part of its consideration of new debt.
- j. *Capital Improvement Program (CIP).* The CIP is designed to meet NCTD's ongoing operational, and infrastructure needs in a responsive and efficient manner. The CIP must take into consideration the NCTD Transit Asset Management Plan (TAM), which defines the assets owned, operated and/or maintained by NCTD, their condition, and how NCTD prioritizes maintenance funding to keep the transit network in a state of good repair. NCTD must review and prioritize its capital projects to ensure that operationally critical projects are funded. The 5-Year CIP incorporates the current and future needs of NCTD and is updated annually. All years beyond the budget year are subject to change and the annual CIP is adopted in conjunction with the annual operating budget upon approval from the Board.

3. Budget Responsibilities

- a. The Chief Financial Officer (CFO) has the overall responsibility for planning, coordinating, analyzing, preparing, and issuing the budget.
- b. The Capital Program Manager oversees the Capital Improvement Program and leads the Capital Project Steering Committee (CPSC).
- c. The Chief of Advocacy, Marketing and Communications and the Director of Service Planning, or their designees, are responsible for overseeing the development of the Service Implementation Plan (SIP) for the upcoming year comprised of service levels and ridership forecasts by mode of transportation.
- d. Division Chiefs are responsible for preparing and submitting their Division budgets in accordance with the budget instructions.
- e. Department Managers are responsible for preparing their Departmental budgets in accordance with the budget instructions.
- f. The CPSC is responsible for evaluating and ranking projects to ensure that the most critical projects are funded.
- g. The Performance, Administration, and Finance (PAF) Committee of the Board reviews the appropriateness of programs and expenses and ensures that they meet NCTD goals and objectives for the upcoming budget year. The PAF Committee advances the budget for adoption by the Board of Directors.
- h. The Executive Director, in close consultation with the Division Chiefs and the CFO, is responsible for making the final determination of the proposed budget to be submitted for approval to the Board of Directors.

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- i. The Board of Directors is responsible for adopting the annual operating budget and supplemental schedules, the annual CIP, and the 5-Year CIP.

4. Budget Development

- a. *Operating Budget Calendar.* The CFO is responsible for developing the operating budget calendar. A reasonable amount of time should be allotted for budget development at the functional level, review by the PAF Committee, public review and comment, public hearing, and adoption by the Board in June before the start of the budget fiscal year.
- b. *CIP Budget Calendar.* The Capital Program Manager is responsible for developing the CIP calendar. A reasonable amount of time should be allotted for projects evaluation and ranking by the CPSC, Board approval in December preceding the start of the budget fiscal year, and inclusion of NCTD's CIP in the Regional Transportation Program (RTIP) programmed by SANDAG in January after the Board approves the CIP.
- c. *Functional Level.* The budget should be prepared at the functional level by department to allow for accountability and control.
- d. *Allocation of Funding Sources.* NCTD is required to have a balanced budget; therefore, funds should be programmed first to cover operating expenses (unless grant specific requirements that restrict funding for capital projects). Any remaining unallocated funds can then be programmed for the CIP.
- e. *Staffing Levels.* The Chief Administrative Officer and Human Resources Director complete the review of the prior year staffing plan in collaboration with all Division Chiefs and submit the proposed staffing plan recommendation to the Executive Director for approval to be incorporated in the baseline budget assumption.
- f. *Capital Improvement Program.* Approved projects must align with NCTD's goals and strategic areas of focus. Capital projects are evaluated, ranked, and scored according to established criteria and prioritized on how well the respective project meets NCTD goals and objectives. State of good repair, regulatory requirements, safety and security, and projects that have ongoing contractual obligations are the highest priorities. NCTD staff should review previously approved capital projects to ensure that they are advancing as planned and reallocate funding from projects that have anticipated savings or are no longer advocated for various reasons.
- g. *Assumptions.* Revenue and expenses projections should be based on a series of assumptions, including but not limited to, revenue estimates provided by the California State Controller's Office, San Diego County Auditor, and SANDAG; Service Implementation Plan and ridership projections; projected consumer price index increases (inflation); staffing levels and salary and fringe cost increases; pension and retiree health funding obligations based on actuarial reports; debt service commitments; contractual obligations; maintenance and repair needs; and business initiatives and strategic areas of focus.
- h. *Comparative Information.* In order to support comparison with the proposed fiscal year operating budget, the financial information should be presented in a format that provides the current year projected revenues and expenses, the prior year actual revenues and expenses, along with the budgeted revenue and expenses.
- i. *5-Year Plan.* The 5-Year Plan provides a long-term outlook of NCTD's major cost drivers and available funding sources. It is updated annually to help identify opportunities or

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issues and serves as the foundation to guide decision making during the development of the operating and capital budgets. It also provides a stress test to identify cash needs if sources of revenue came in lower than projected.

5. Budget Documents

The CFO is responsible for ensuring that the following documents are submitted for Board approval prior to July 1 of each year:

- Annual Operating Budget and 5-Year Capital Improvement Program
- Employee Classification and Compensation Schedule
- Cost Recovery Fee Schedule
- Service Implementation Plan

6. Budget Review and Adoption

- a. The PAF Committee is responsible for overseeing the preparation of the annual budget before presentation to the full Board for approval. The PAF Committee should meet and receive a presentation of the proposed budget from NCTD staff and advance for Board approval.
- b. NCTD must make the budget available for public review and comment at least fifteen calendar (15) days prior to holding a public hearing.
- c. After the public review and comment period and the public hearing, the operating budget and CIP are presented to the Board for final consideration and adoption in June before the start of the budget fiscal year.

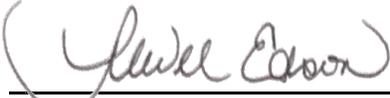
7. Budget Monitoring and Controls

- a. The adopted budget is entered into the accounting system to monitor and manage revenues and expenses. Requisitions for the procurement of goods and services are routed through the Enterprise Resource System (ERP) where the Finance Division reviews whether there are available funds. If there are funds available, the requisition moves forward with the subsequent required approvals. If there are no funds available, a budget adjustment is required as described under Section 7(d), if appropriate.
- b. The Finance Division produces monthly budget to actual expenditure reports that are distributed to Division Chiefs and Department Managers intended to help staff control expenditures.
- c. The Finance Division produces quarterly financial statements for the Board, which include the statement of changes comparing actual revenues and expenses to budget and to the prior period, and explanations for significant variances.
- d. Changes to the budget take the form of budget transfers or Board-approved amendments. Budget transfers do not change the total appropriated amount and do not require Board action. Depending on the budget category affected by the transfer, approval may be granted as follows:

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- i. Division Chiefs have the discretion to reappropriation funds between line items within their department or between departments in their division, except for salaries and wages, unless it is an adjustment to fund temporary staffing due to vacancies. Division Chiefs may not exceed the total appropriated amounts within their division.
 - ii. The Executive Director may transfer funds between divisions but may not exceed the total appropriated amount for NCTD.
- e. An increase in the total appropriated amount for NCTD requires a budget amendment. Budget amendments follow the same process as listed under Section 6.

Approvals



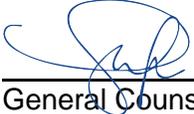
Board Chair

10/20/2022
Date



Executive Director

10/20/2022
Date



General Counsel

10/20/2022
Date

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DATE	REVISION NO.	RESOLUTION NO.	COMMENTS
10/18/2012	ADOPTED	12-10	
10/17/2013	1	13-07	2013 REVISION
10/16/2014	2	14-04	2014 REVISION
11/19/2015	3	15-08	2015 REVISION
10/20/2016	4	16-10	2016 REVISION
10/19/2017	5	17-10	2017 REVISION
10/18/2018	6	18-09	2018 REVISION
10/17/2019	7	19-06	POLICY DELETED IN ITS ENTIRETY AND REPLACED WITH NEW POLICY
10/21/2021	8	21-05	2021 REVISION
10/20/2022	9	22-17	2022 REVISION