

1.0 PURPOSE

These Financial Policies 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

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

1.2 Legal Authority

- 1.2.A. Transit Governance Interlocal Agreement amended November 28, 2005, 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)
- 1.2.B. Federal Requirements (U.S. Department of Transportation, Federal Transit Administration (FTA))
 - OMB Super Circular 2 CFR 200
 - 49 CFR, Parts 18 (The Common Rule), 21, 23, 24, 663
 - FTA Circular 5010.1D (including References)

1.2.C State Requirements

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

1.3 Scope

These Financial Policies 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 Budget. 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 Debt Service Fund delineating income and expenditures associated with the Transit Debt Service Program; and pass-through funds from the Transit Sales Tax revenues to other funds
- Transit Revenue Reserve Fund (RRF) delineating funds transferred from the Transit Debt Service Fund which are intended to act as a hedge against income fluctuations ensuring financial stability for optimal debt financing.
- Transit Operating Fund delineating operating income, reserves and operating expenditures for the provision of transit services
- Transit Capital Fund delineating income and expenditures for the Transit Community Investment Plan (CIP)

1.4 Fiscal Year

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

2.0. DEFINITIONS

CATS is the Charlotte Area Transit System which is a Department of the City of Charlotte.

CATS Control Account created in 2016 is a control cost center in the Transit Capital Program which will receive revenue from sales tax funds, as described in Section 3.1.



CEO is the Chief Executive Officer of the Charlotte Area Transit System

Cost Allocation Plan (CAP), approved by the Federal Transit Administration and updated annually in compliance with Federal regulations. CATS CAP provides the approved overhead rate that may be applied on direct project administration costs.

Finance Charge Reimbursements in any Fiscal Year is the amount of Federal or State grant reimbursements under a Full Funding Grant Agreement or other grant agreements which are eligible to pay a portion of annual debt service costs.

Fiscal Year-End Fund Balance is an unrestricted balance that must be available in the Transit Fund at the end of each fiscal year.

Metropolitan Transit Commission (MTC) is the transit governing board for the Charlotte Area Transit System (CATS) whose primary function is approval of transit policy and budgets.

Operating Allocation is the amount of Transit Sales Tax revenue derived from the Sales Tax Trend Line available for transfer to the Transit Operating Fund after deducting debt service payments.

Revenue Reserve Fund (RRF) was created in 2013 to capture annual Transit Sales Tax revenue in excess of the annual Sales Tax Trend Line. The maximum RRF fund balance is set at \$30 million. Funds from the RRF will be used by CATS in years when the annual Transit Sales Tax revenue is below the Sales Tax Trend Line.

Sales Tax Trend Line defines average long-term growth rate for the Transit Sales Tax. The sales tax trend line was established in 2013 and the average annual growth rate provides stability in funds for operating programs.

Transit Sales Tax is the Mecklenburg County voter approved ½% Sales & Use tax authorized by Sub Chapter VIII of Chapter 105 of the North Carolina General Statutes, Article 43 Local Government Public Transportation Sales & Use Tax Act. Proceeds from the tax must be used exclusively for the purpose of public transportation.

3.0. FLOW OF FUNDS

3.1. Transit Sales Tax

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 the City of



Charlotte/CATS within five business days of receipt of these funds from the State of North Carolina.

All Transit Sales Tax revenue is deposited into the CATS debt service fund for debt service payments. Revenue deposited into the Debt Service Fund is managed as follows:

- Annual amount budgeted for debt service payments and fees are retained in the Transit Debt Service Fund.
- Any actual sales tax revenues in excess of the Transit Sales Tax Trend Line is transferred to the Transit Revenue Reserve Fund (RRF) until the balance in the RRF reaches \$30 million. Once the RRF balance is at \$30 million, these funds are transferred to the "CATS Control Account" in the Transit Capital Fund.
- The balance, referred to as "Operating Allocation", is transferred to the Transit Operating Fund.

3.2. Sales Tax Trend Line

The 2013 Sales Tax Trend Line may be adjusted periodically, based on changes in source of revenues or any other significant changes that may impact the Transit ½% Sales & Use Tax.

3.3. CATS Control Account

Transit sales tax revenue that has been transferred into this control account based on Section 3.1. The Transit CEO may recommend use of such funds, for operating or capital programs, to the Metropolitan Transit Commission as a part of the CEO Recommended Budget in January of each year.

4.0 DEBT SERVICE PROGRAM

4.1 The Transit Debt Service Fund will receive all transit sales tax revenue. The distribution of these funds will conform to the Flow of Funds identified in Section 3.1.

4.2 The Debt Service program receives revenue from debt financing, loan proceeds, premiums, grant funds used to offset debt service payments and fees and local sales tax revenue; payments include principal and interest costs on short- or long-term debt (annual debt service costs) associated with financing of capital assets for the transit system, fees and other specialized costs associated with this program.

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

- Bus & Rail Equipment/Amenities/Facilities Program: Debt service costs associated with the purchase of buses, rail cars, other rolling stock, equipment, construction and real estate not associated with the development of the Rapid Transit Program.



- Rapid Transit New Starts Programs: Debt service costs associated with the development and build out of New Starts, Small Starts, Core Capacity, TIGER, or other rapid transit development and construction programs.
- Other: Any other transit related fees and programs as approved by the MTC.

4.4 Debt Service Program: Financial Performance Objectives

Debt service coverage ratios establish a guide for levels of annual operating costs relative to current and future debt service costs.

4.4.A Net Debt Service Coverage Ratio:

The Net Debt Service Coverage Ratio (NDSCR) requires debt service revenue to exceed debt service cost by 15% (1.15x). NDSCR is calculated as follows:

- i) Numerator: Operating Balance (as defined in Section 5.5) plus Finance Charge Reimbursements
- ii) Denominator: annual debt service cost less Federal and State Matching Funds used to offset debt service.

4.4.B. Gross Debt Service Coverage Ratio

Gross Debt Service Cost Ratio (GDSCR) requires that the income from Transit Sales Tax + Maintenance of Effort + Finance Charge Reimbursements be 3.0 times (3.00x) the annual debt service cost net of Federal and State Matching Funds used to offset debt service.

The maintenance of debt service coverage ratios together with other performance measures provide 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.

4.5 CATS Debt Policy

- Principal maturity for debt will be linked to asset life and will not exceed thirty-five (35) years.



- Variable rate or other short-term 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 capital program in the most cost effective sequence.
 - b) Cash flow requirements
 - c) Fund Balance (per Section 8.6) to guard against anticipated/ unanticipated risks.
- Sales Tax revenue and eligible grant funds will be used for the payment of annual debt service costs.

5.0 TRANSIT OPERATING PROGRAM

5.1 Purpose

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

- A. Operating Income (Income Sources)
- B. Operating Expense

Annually, the difference between Operating Income and Operating Expense is the **Operating Balance**. The Operating Balance is transferred to the Transit Capital Program for funding a portion of the Transit Capital Program.

5.2 CATS Comprehensive Financing Model

The CATS Comprehensive financing model allocates sales tax revenues according to the Flow of Funds in Section 3.1 of this document. The model will be reviewed annually and adjusted if necessary based on debt service changes, reserve requirements, sales tax trendline adjustments or financial performance. The review shall be conducted as part of the budget process.

5.3 Operating Income

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

5.3.A. Maintenance-Of-Effort

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



The initial amounts were equal to the units' net local expenditures for public transportation systems in fiscal year 1998. The amended amounts for each fiscal year as identified in CATS approved budget shall be received by the City of Charlotte's Finance Department by December 31 of each year from:

- City of Charlotte
- Mecklenburg County
- Town of Huntersville

5.3.B. Passenger Fares

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

5.3.C. Service Reimbursement

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

5.3.D. Operating Allocation

Sales Tax Revenue that is transferred to the Transit Operating Fund from Transit Debt Fund in accordance with Flow Of Funds described in Section 3.1. of this document.

5.3.E. Interest Income

Income from the investment of reserve funds and other unused fund balances in the CATS Transit Funds. 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 for CATS funds shall minimize credit and market risks while maintaining a competitive yield.

5.3.F. Operating Assistance Income

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

5.3.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, but are not limited to, salvage from sale of assets, concessions, rents, advertising proceeds, joint development payments, value capture revenue and other types of payments and/or reimbursements.

5.4 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. The 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.

5.4.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 Countywide Transit Services Plan and CATS Comprehensive Financing Plan, which will be periodically reviewed.

5.4.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 that comply with Federal, State and local guidelines.

CATS CAP rates may be applied to project administration costs in accordance with Federal regulations.

5.4.C. Adjustments

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

5.5 Operating Balance

Annually, the difference between Operating Income and Operating Expense is the Operating Balance. Subject to Section 3.1 (Transit Sales Tax), the Operating Balance may be utilized to fund a portion of the Capital Program.

5.6 Transit Operating Program: Financial Performance Objectives

The following Financial Performance Objectives are established to guide the development of the annual program and budget and to measure and/or control operating expenses and revenues.

5.6.A. System Subsidy

The percentage of annual operating cost that is not offset by revenue generated from passengers through ticket and pass sales and service and activity center reimbursements shall be budgeted at less than or equal to 80%.

(Subsidy = Operating cost less Revenue from fares and service)

5.6.B. Cost Growth per Vehicle Revenue Hour

The annual increase in the cost per revenue hour of service shall be equal to or less than the rate of inflation for Transportation as identified by the U.S. Department of Labor, Bureau of Labor Statistics Data or +3.6%, whichever is greater. A unit of service is defined as one vehicle revenue hour. Cost per vehicle revenue hour is derived by dividing annual service delivery cost by total annual revenue hours of service.

Rail cost growth should be calculated using rail car revenue hours.

5.6.C. Administrative/Overhead Cost

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

5.6.D. Unlinked Passenger Trips per Vehicle Revenue Hour

The number of passengers per revenue hour on fixed route and demand response services is a measure of service effectiveness. System-wide passengers per revenue hour shall be maintained at a level greater than or equal to 20 passengers per hour for bus operations, 90 passengers per hour for rail operations and passengers per hour for streetcar operations.

6.0 GENERAL POLICIES: OPERATING PROGRAM

6.1 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.

6.2 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.

CATS may elect to utilize a net cost calculation, taking into account future revenue generated, due to the expanded 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 and Federal, State, and Local regulations.

6.3 Fare Policy

The MTC approved Fare Policy provides for an increase in fare levels 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 \$0.25 (twenty-five cents) or the average of 2-year inflation (whichever is higher) is recommended for the base cash fare every two years. Fares for all other services shall likewise be adjusted to maintain their relationship to the base cash fare.

The MTC may recommend changes in transit fares, outside of the two year cycle, in recognition of significant changes in transit costs.

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

6.4 Management Reporting Requirements

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

1. An annual budget (operating and capital) recommendation by January 31 of each fiscal year
2. Annual financial statements as reported in the City's Comprehensive Annual Financial Report for the prior fiscal year
3. Monthly report on sales tax receipts
4. Monthly ridership report
5. Reports, as requested by the MTC, on any major events or trends that impact financial performance

7.0 REVENUE RESERVE FUND

The Transit Revenue Reserve Fund serves as a hedge against income fluctuations to ensure financial stability for CATS operations. It is funded from annual Transit Sales Tax in excess of the Sales Tax Trend Line. The maximum balance to be maintained in the RRF is \$30 million.

The Revenue Reserve Fund will be used to maintain a stable Operating Allocation.



8.0 TRANSIT CAPITAL PROGRAM

- 8.1 The Transit Capital/Community Investment Plan describes capital income and 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 fund/finance the projected expenditures. The CATS CEO shall submit a proposed 5-year Capital/Community Investment Plan to the MTC by January 31 of each year. The MTC shall approve the Plan 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 falls 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.

- 8.2 The Transit Capital Program will be used to account for the procurement, planning/design, acquisition, construction and reconstruction/rehabilitation of major capital facilities, services and equipment. It may include Federal and State grants, debt financing 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 Operating Balance, project-related reimbursements, debt financing, public-private partnerships (3P) or other sources of capital funding.

8.3 Capital Income Sources

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

8.3.A. Federal Grants

Contributions of funds 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, preventive maintenance and/or state of good repair of the assets and associated capitalized costs. There may be a local match required for this type of income.

8.3.B. Federal Loan Programs

Low interest loan/credit programs offered by the Federal Government to fund transit infrastructure. Examples of these programs are the Railroad Rehabilitation & Improvement Financing (RRIF) and the Transportation Infrastructure Finance and Innovation Act (TIFIA).

8.3.C. State Grants

Contributions of funds 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 income varies depending on the type of grant award.

8.3.D. Public-Private Partnerships/Joint Development Proceeds/Contributions

Public-private partnerships that generate equity or other revenue or services utilized for projects contained in the Capital Investment Plan. Projects may qualify for alternative methods of financing that are offered in the financial markets if such financings are in compliance with criteria established by the debt issuing entity representing the request of the MTC. 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.

8.3.E. Operating Balance

Operating Income less Operating Cost is defined as Operating Balance and, subject to Section 3.1, may be utilized for the Capital Investment Program or transferred to the Transit Fund Balance.

8.3.F. Special Payments

Any other sources of income, which will be utilized for funding the CATS Capital Program.

8.3.G. 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 preventive maintenance of assets.

8.4 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.

8.4.A. Capital Investment Plan

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

- Bus/Bus Amenities/Facilities. Current and new equipment and facilities, e.g. Buses, Vans, 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 facilities 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, Project Development, Preliminary Engineering, Right-Of-Way Acquisition, Construction and Purchase of Revenue Equipment for new rapid transit systems in the corridors and the future capital maintenance of these assets shall be included in this category of expense.

8.4.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.

8.4.C. Debt Service Payments

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

8.5 Transit Capital Fund: Performance Policy Objectives

8.5.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.

8.5.B. Project Benefits Measurement

To determine the benefit and priorities of specific transit projects, Benefit Cost Analysis (in accordance with Federal Transit Administration guidelines) or similar methodologies, may be utilized to provide the MTC and CATS Management with an assessment of the benefits provided by projects and alternatives that may be considered.

8.5.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.

8.5.D. Capital Investment

The MTC shall review Operating Income each fiscal year and, subject to Section 5.3, determine the amount to be allocated to the Capital Programs.

8.6 Unrestricted Fund Balance

The unrestricted fund balance serves as a contingency fund to support maintaining services in case of substantial loss of revenue, such as repeal of the transit sales tax, or unforeseen increases in costs. Several factors dictate the maintenance of a significant fund balance, including cash flow for operating expenses, meeting debt service commitments and maintaining state of good repair on transit assets.

The unrestricted fund balance requirement at the end of the fiscal year will be the greater of \$100 million or the amount calculated as the sum equivalent to the following:

- i. Annual Debt Service Expense. This may be determined up to the maximum annual debt service (MADS)
- ii. Up to six (6) months of the annual Operating & Maintenance expense
- iii. Annual Operating Balance, i.e. annual contribution of sales tax revenue budgeted for transfer from the Operating to the Capital budget

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. Operating and capital shortfalls can be covered by a loan from the unrestricted fund balance. The total loan during a fiscal year cannot exceed \$50 million.

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

8.7 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.

8.7.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 and/or Loans from Federal/State/Other Sources
- Debt Finance
- Special Loans (Public or Private)

8.7.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.

8.7.C. Federal Formula and State Matching Funds

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

8.7.D. Types of Debt Financing

- i) 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 debt issuing entity, e.g. 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) Federal and/or State Government Loan Programs

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

Transportation Infrastructure Finance and Innovation Act (TIFIA) Loans issued by the U.S. Department of Transportation for surface transportation projects of national and regional significance.

Other types of Federal and/or State Loan programs offered by the Federal or State governments for the purposes of building or maintaining transit infrastructure.

iii) Public-Private Partnerships

Financing of the private sector that qualifies for funding under criteria by the debt issuing entity.

9.0 GENERAL POLICIES: CAPITAL PROGRAM

9.1. Reimbursements/Cost Sharing

9.1.A. Outside Mecklenburg County Service Improvements

CATS will not pay for any portion of the 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 capital costs incurred by CATS to extend service to such counties.

9.1.B. 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.

10.0 PERIODIC REVIEW AND AMENDMENT

- 10.1 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 nor 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.
- 10.2 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.
- 10.3 Proposed amendments or revisions to these Financial Policies shall be subject to review and study by the Citizens Transit Advisory Committee.
- 10.4 CTAG shall make recommendation on any proposed amendment or revision to the MTC.
- 10.5 The MTC must approve any amendment or revision by majority vote before said amendment or revision shall become official policy of CATS.

Summary of changes:

Entire document: minor wording changes to improve clarity. Changes include more specific definitions and reorganization of several sections to offer an easier flow of information.

- 1.0 Scope (1.3) Revised bullets for Transit Debt Service Fund & Transit Revenue Reserve Fund (RRF); fourth bullet revised wording now reads Transit Community Investment Plan (CIP), formally Transit Capital Investment Plan
- 2.0 Definitions added; formally section Transit Operating System (moved down to section 5.0) "in 2011" removed in Cost of Allocation definition; "was calculated based on the trend line of the one-cent Countywide sales tax revenue (with adjustments)" removed from Sales Tax Trend Line definition
- 3.0 Flow of funds, formally Debt Service Program moved down to 4.0; Transit Sales Tax (3.1); Sales Tax Trend Line (3.2); CATS Control Account (3.3) provides additional resources for use in CATS operating or capital programs which must be approved by the MTC through the regular annual budget process; Receives Sales Tax funds when balance in RRF is a \$30 million, CATS CEO recommends use of funds to MTC during Budget process, May be utilized for capital or operating programs
- 4.0 Debt Service Program, formally section 3.0, Transit Capital Program information moved down to section 8.0; Debit Service Coverage Ratio:



System Subsidy, less than or equal to 80% of operating expense excluding income from ticket/pass service reimbursement; no change in coverage ratios, but recognize all grant eligible funds, and align with Bond & LTFP documents; "Formula" removed from "Federal and State Matching Funds" in 4.4A ii & 4.4B

- 5.0 Transit Operating Program formally section 2.0; Periodic Review and Amendment moved down to section 10.0 Purpose (5.1) insertion of The Operating Balance is transferred to the Transit Capital Program for funding a portion of the Transit Capital Program. CATS Comprehensive Financing Model (5.2) reference to section 3.1 Flow of Funds section , added Sales Tax trendline adjustments; Operating Home (5.3) removed amounts for City of Charlotte (\$18,400,000), Mecklenburg County (\$181,866), and Town Of Huntersville (\$17,500). Passenger Fares (5.3B) and service sponsors inserted after riders. Operating Allocation (5.3D) entire section revised. Transit Service Delivery Costs (5.4A) second bullet now includes CATS Comprehensive Financing Plan. Administrative Overhead Costs (5.4B) added CATS Cap rates may be applied to project admin costs. System Subsidy (5.6 A) formally section 2.6 letter A Operating Ratio, percentage of annual operating expense not offset by revenue generated previously 20% now less than or equal to 80%. Cost Growth per Vehicle Revenue Hour (5.6B), formally section 2.6 letter B Cost Growth, +3.6%, which is greater added. 5.6D Unlinked Passenger Trips per Vehicle Revenue Hour, formally section 2.6 letter D Passenger Per Hour.
- 6.0 General Policies: Operating Program, formally section 2.7 General Policies; Management Reporting Requirements (6.4), list of financial reports provided by CATS to the Metropolitan Transit Commission revised
- 7.0 New: Revenue Reserve Fund, funded from annual Transit Sales Tax, maximum balance to be maintained in RRF \$30 million
- 8.0 Transit Capital Program, formally section 4.0, Unrestricted Fund Balance (8.6) formally section 4.5 letter E revised, criteria added.
- 9.0 General Policies: Capital Program, section revised, formally 4.7 general policies. Management Report Requirements (4.7 letter B) section removed
- 10.0 Periodic Review and Amendment, formally section 5.0

Previous Revision: March 26, 2013

On June 28, 2017, the MTC approved an exception to Section 6.2 Reimbursements for Delivery of Service Outside Mecklenburg County as part of the approval of the 2017 Bus Rail Integration Plan for the Blue Line Extension. CATS does not anticipate a subsidy for the extension of one bus route into Cabarrus County.

