

**To:** Administration and Finance Committee

**Date:** February 3, 2016

**From:** Erick Cheung  
Director of Finance

**Reviewed By:**

**SUBJECT:** Reserve Policy

### SUMMARY OF ISSUES:

The Administration and Finance Committee requested a discussion on a reserve policy for County Connection, due to fluctuations in pension costs which varies depending upon the return on investments by CalPERS. Best practices states that each entity needs to decide its priorities for reserves, but a minimum amount for a general-purpose government is to maintain an unrestricted budgetary fund balance in the general fund of no less than two months of regular general fund operating revenues or expenditures.

County Connection has two reserves which can be used for operations and capital funding shortfalls. The first is the Safe Harbor Lease Reserve and amounts to \$1.4 million from proceeds from the sale of federal income tax benefits under the safe harbor lease provisions of the Tax Equity and Fiscal Responsibility Act of 1982. The Safe Harbor Lease Reserve funds are unrestricted and accrue interest each year.

The second reserve consists of unspent funds from Transportation Development Act (TDA) which amounted to \$10.2 million in the FY 2016 Budget. In general, TDA funds are utilized as funds of last resort. In other words, after all other possible operating funds are utilized; TDA funds are then used to fill the remaining operating needs. Any unspent TDA funds are required to be returned to Metropolitan Transportation Commission (MTC) but are allocated back to County Connection in future years. The unspent funds represent the agency's TDA Reserve. In the adopted FY 2016 budget, the Board is provided the plan for the TDA Reserve over a 10 year period, the TDA Reserve represented 29% or 3.5 months of operating in FY 2014 down to 5% or 0.5 months in FY 2024. One of the larger variables in the projection is how much TDA funds will be needed for capital in the future years and can other funding sources be identified in the future.

One reason for reserves is for cash flow purposes, but unlike cities which receives revenue in arrears (i.e. property tax), County Connection receives operating funds in advance from MTC. As stated earlier, these funds may need to be returned and reallocated in the future if unspent that fiscal year. Staff has prepared various reserve options that could be considered as an internal policy. A sustainable reserve based on the projections would be 10% without additional revenues and/or service adjustment. The reserve does go into deficit in FY 2022, but the projection assumes that other funding cannot be located for a major bus purchase and County Connection would need to use TDA funds.

**FINANCIAL IMPLICATIONS:** None.

**ACTION REQUESTED:** Staff requests that the committee provide direction.

**ATTACHMENTS:** County Connection Reserve

**County Connection**  
RESERVE In \$ Thousands

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Total CCCTA Operating Budget</b>	\$ 32,834	\$ 32,991	\$ 36,742	\$ 37,206	\$ 38,228	\$ 39,204	\$ 40,206	\$ 41,234	\$ 42,322	\$ 43,438	\$ 44,588
<b>Ending TDA Reserve</b>	\$ 9,522	\$ 10,170	\$ 6,740	\$ 5,478	\$ 4,513	\$ 4,120	\$ 4,060	\$ 4,176	\$ 1,173	\$ 1,773	\$ 2,017
<b>Safe Harbor Lease Reserve</b>	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443	\$ 1,443
<b>Total Reserve</b>	\$ 10,965	\$ 11,613	\$ 8,183	\$ 6,920	\$ 5,956	\$ 5,563	\$ 5,502	\$ 5,619	\$ 2,616	\$ 3,215	\$ 3,460
<b>RESERVES - Based upon Operating Budget and Total Reserve</b>											
<b>Operating Reserve Percentage of:</b>											
10%	\$ 3,283	\$ 3,299	\$ 3,674	\$ 3,721	\$ 3,823	\$ 3,920	\$ 4,021	\$ 4,123	\$ 4,232	\$ 4,344	\$ 4,459
Difference between Reserve & Goal of 10%	\$ 7,682	\$ 8,314	\$ 4,509	\$ 3,199	\$ 2,133	\$ 1,643	\$ 1,481	\$ 1,496	\$ (1,616)	\$ (1,129)	\$ (999)
16%	\$ 5,253	\$ 5,279	\$ 5,879	\$ 5,953	\$ 6,116	\$ 6,273	\$ 6,433	\$ 6,597	\$ 6,772	\$ 6,950	\$ 7,134
Difference between Reserve & Goal of 16%	\$ 5,712	\$ 6,334	\$ 2,304	\$ 967	\$ (160)	\$ (710)	\$ (931)	\$ (978)	\$ (4,156)	\$ (3,735)	\$ (3,674)
50%	\$ 16,417	\$ 16,495	\$ 18,371	\$ 18,603	\$ 19,114	\$ 19,602	\$ 20,103	\$ 20,617	\$ 21,161	\$ 21,719	\$ 22,294
Difference between Reserve & Goal of 50%	\$ (5,452)	\$ (4,882)	\$ (10,188)	\$ (11,683)	\$ (13,158)	\$ (14,039)	\$ (14,601)	\$ (14,998)	\$ (18,545)	\$ (18,504)	\$ (18,834)
<b>Operating Reserve Percentage Plus a 1% reserve for Pension which equals \$140K beginning in FY 2016 and increases 3% for COLA of:</b>											
10%	\$ 3,283	\$ 3,299	\$ 3,814	\$ 3,865	\$ 3,971	\$ 4,072	\$ 4,178	\$ 4,285	\$ 4,399	\$ 4,516	\$ 4,636
Difference between Reserve & Goal of 10%	\$ 7,682	\$ 8,314	\$ 4,369	\$ 3,055	\$ 1,985	\$ 1,491	\$ 1,324	\$ 1,334	\$ (1,783)	\$ (1,301)	\$ (1,176)
16%	\$ 5,253	\$ 5,279	\$ 6,019	\$ 6,097	\$ 6,264	\$ 6,425	\$ 6,590	\$ 6,759	\$ 6,939	\$ 7,122	\$ 7,311
Difference between Reserve & Goal of 16%	\$ 5,712	\$ 6,334	\$ 2,164	\$ 823	\$ (308)	\$ (862)	\$ (1,088)	\$ (1,140)	\$ (4,323)	\$ (3,907)	\$ (3,851)
50%	\$ 16,417	\$ 16,495	\$ 18,511	\$ 18,747	\$ 19,262	\$ 19,754	\$ 20,260	\$ 20,779	\$ 21,328	\$ 21,891	\$ 22,471
Difference between Reserve & Goal of 50%	\$ (5,452)	\$ (4,882)	\$ (10,328)	\$ (11,827)	\$ (13,306)	\$ (14,191)	\$ (14,758)	\$ (15,160)	\$ (18,712)	\$ (18,676)	\$ (19,011)