

To: Administration & Finance Committee

Date: 03/27/2024

From: Amber Johnson, Chief Financial Officer

Reviewed by: WC.

SUBJECT: Proposed Update to Board-Adopted Policy Regarding Reserves

Background:

Since its inception, County Connection has established dozens of policies that provide guidance for decision making and bring uniformity to operations. As a matter of best practice, these policies should be revisited and assessed periodically to ensure they align with current operational objectives and common industry standards.

County Connection's policy regarding Reserves was adopted on October 15, 1987, and has not been modified since this time.

Current Policy:

The current reserve policy is solely focused on Transportation Development Act ("TDA") funds that are held on behalf of the Authority by the Metropolitan Transportation Commission ("MTC"). At the time this policy was adopted, the Authority was uniquely reliant on federal operating assistance for its day-to-day operations. Since that time, the composition of operating revenue sources has changed substantially, and the current policy language is no longer relevant. Additionally, the current policy does not provide parameters for the appropriate level of reserves, nor does it address all the reserve types utilized by the Authority today.

Proposed Policy:

Operating and Capital Reserve

The Authority has historically treated TDA funds as the "revenue of last resort", meaning that all other available revenue sources were applied against expenditures before claiming TDA funds from MTC. Because the Authority rarely claims the full allocation of TDA funds in the same year of the allocation, excess TDA funds have accumulated. Over time, particularly with the injection of federal funds during the pandemic, this has resulted in a healthy amount of excess TDA funds held by MTC.

After consulting with MTC and the Authority's financial auditors, staff are recommending a modification to this practice. Certain revenue sources collected by the Authority are considered discretionary, such as advertising revenue and unallocated interest income. This proposed policy permits the Authority to reserve excess discretionary revenue in accounts that are held by the Authority – thereby not applying these revenue sources to expenditures before claiming TDA funds from MTC. The proposed policy

further defines the Authority's "Operating and Capital Reserve" as being comprised of both types of funds, excess TDA revenue and excess discretionary revenue.

The Government Finance Officers Association (GFOA) best practice recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance of no less than two months of regular general fund operating revenues or operating expenditures. In surveying peer transit agencies, a range of three to six months' operating expenditures was the standard minimum reserve target amount. The proposed policy recommends a target balance of three months' operating expenditures (or 25% of the operating budget). This is the same target balance that has been informally utilized by staff in evaluating the TDA reserves during the budget cycle. A maximum amount of 12 months' operating expenditures (or 100% of the operating budget) is also proposed, with suggested actions to take should the reserve balance exceed the maximum amount for an extended period of time, such as expanding transit service or decreasing fares in order to provide optimal levels of service.

The proposed policy also provides guidance around appropriate use of the reserves. The reserve funds are to be used during periods of declining revenue or slower than anticipated revenue growth to sustain the Authority's operations until service reductions, program cuts, or fare increases are made to reestablish a balanced budget. In addition, the reserve may be used for one-time capital projects.

Safe Harbor Lease Reserve

The proposed policy language includes the Safe Harbor Lease Reserve that was established in 1983 upon the sale of federal income tax benefits permitted by law at that time. These funds held are designated by the Authority's Board as an emergency reserve to be used only as a last resort. Inclusion of this type of reserve in the proposed policy merely formalizes the existing practice of the Authority in relation to these funds.

Self-Insurance Reserve

The proposed policy language also includes the amounts reserved in liability accounts for workers' compensation claims and general liability claims. Inclusion of this type of reserve in the proposed policy merely formalizes the existing practice of the Authority in relation to these funds.

Financial Implications:

Updating this policy language will strengthen the Authority's financial position, by diversifying the custody of the Operating and Capital Reserve and broadening the definition of the reserve to include discretionary revenue sources. Additionally, comprehensive reserve policy language is important to prudent financial management.

Recommendation:

Staff recommends the A&F Committee review and provide feedback on the proposed updated policy.

Action Requested:

Staff requests that the A&F Committee forward a recommendation to the Board of Directors to adopt the updated Reserve Policy #06.02.

Attachments:

Attachment 1: Current TDA Reserve Use Policy

Attachment 2: Proposed Updated Reserve Policy #06.02

SUBJECT: TDA Reserve Use

BACKGROUND: For the past several years, CCCTA has been accumulating excess Transportation Development Act (TDA) funds and has built up a reserve of such funds. The Board of Directors has determined that it is in the best interest of CCCTA and the public to adopt a policy concerning the use of such funds, and the Metropolitan Transportation Commission has asked CCCTA to develop a policy for the prospective use of its Local Transportation Fund reserves composed of said TDA funds. Therefore, the policy for disposition of CCCTA TDA reserves contains the following features:

- POLICY:**
1. Use of any prior-year TDA funds must be decided on a case-by-case basis.
 2. TDA reserve funds may be used to offset a reduction or elimination of federal operating assistance for a period not to exceed one fiscal year. Such use is on an emergency basis only and is not meant to be an ongoing replacement of reduced operating assistance.
 3. TDA reserve funds may be used to fund the purchase of capital equipment related to the implementation of the CCCTA Strategic Plan.
 4. TDA reserves may be used to fund the operation of services related to the implementation of the CCCTA Strategic Plan. Such use of funds shall be of a short-term (12-24 months) demonstration nature.
 5. TDA reserve funds may be used to finance the purchase of capital projects that have not been funded through all other available capital assistance programs. Use of TDA prior-year funds for this purpose shall occur only if all other sources of capital financing are exhausted.

DATE OF ADOPTION: October 15, 1987

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
RESERVE POLICY

Policy No. 06.02
Created: October 15, 1987
Revised: *April 18, 2024 (draft)*

PURPOSE:

The purpose of this Policy is to establish a comprehensive level of Central Contra Costa Transit Authority (“Authority”) reserves to ensure that the Authority can withstand national, regional, and local major economic disruptions, as well as unanticipated expenditure demands due to natural disasters, insurance loss, other emergent events, and other non-recurring expenses.

POLICY:

1. Operating and Capital Reserve.

a. Composition: The Authority maintains a reserve consisting of Transportation Development Act (TDA) funds that are allocated to the Authority but not claimed in the same year of allocation (excess TDA funds), and discretionary revenue sources (i.e. advertising revenue, unallocated interest income). Excess TDA funds are reserved and held by the Metropolitan Transportation Commission (MTC) as required under TDA statutes. Excess discretionary funds are calculated at fiscal year end and are held by the Authority. Together, these two types of funds comprise the Operating and Capital Reserve.

b. Target Balance: The Authority shall strive to maintain an Operating and Capital Reserve balance equivalent to at least three months’ operating expenditures based on the adopted budget. The reserve balance shall be considered fully funded if the balance reaches twelve months’ operating expenditures.

If, for a prolonged period, the total Operating Reserve balance exceeds twelve months of operating expenditures, the Authority will consider options such as, but not limited to: expanding transit service or decreasing fares to provide the optimal level of transit service and benefits to Central Contra Costa County.

c. Use of Reserves: The Operating and Capital Reserve may be used for limited periods to cover expenditures to maintain operations amid revenue downturns or slower growth, until a balanced budget is restored through service reductions, program cuts, or fare increases. The Operating and Capital Reserve may also be used to provide one-time resources for high priority capital projects or grant matching funds, to reduce the need for borrowing on large capital projects.

CENTRAL CONTRA COSTA TRANSIT AUTHORITY
RESERVE POLICY

2. Safe Harbor Lease Reserve. The Authority maintains a reserve fund consisting of 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 funds held are designated by the Authority's Board as an emergency reserve to be used only as a last resort.

3. Self-Insurance Reserve. Funded through annual budgeted appropriation, the amount is determined annually at fiscal year-end and established in a liability account to pay for expenses incurred for the following:
 - a. Workers' Compensation Reserve for reported claims incurred, plus potential claims incurred but not yet reported.

 - b. General Liability Reserve for reported claims incurred, plus potential claims incurred but not yet reported.