MTD
Santa Barbara

AGENDA

MEETING OF THE
FINANCE COMMITTEE
OF THE
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A PUBLIC AGENCY
TUESDAY, NOVEMBER 17, 2015
9:00 A.M.
SANTA BARBARA MTD CONFERENCE ROOM
550 OLIVE STREET (UPSTAIRS), SANTA BARBARA, CA 93101

1. **CALL TO ORDER**

2. **ROLL CALL OF THE FINANCE COMMITTEE**
   Bill Shelor, Committee Chair; Roger Aceves, Director; Dave Tabor, Director

3. **REPORT REGARDING POSTING OF AGENDA**

4. **APPROVAL OF PRIOR MINUTES (ATTACHMENT- ACTION MAY BE TAKEN)**
   The Committee will be asked to waive the reading of and approve the draft minutes for the committee meeting of September 22, 2015.

5. **PUBLIC COMMENT**
   Members of the public may address the Committee on items within the jurisdiction of the Committee that are not scheduled for public hearing. The time allotted per speaker will be at the discretion of the Committee Chair. **Please complete and deliver to the MTD Board Clerk, before the meeting is convened, a "Request to Speak" form including a description of the subject you wish to address.**

6. **DIRECTORS AND OFFICERS (D&O) AND FIDUCIARY LIABILITY INSURANCE (ACTION MAY BE TAKEN)**
   Staff recommends the Finance Committee considers recommending binding coverage for Directors and Officers insurance underwritten by Allied World through Professional Governmental Underwriters, Inc., and Fiduciary Liability insurance with Travelers, for the effective dates 1/3/15 – 1/3/16.

7. **DISCUSSION REGARDING DRAFT FINANCIAL STATEMENTS FOR FISCAL YEAR 2014-15 (ATTACHMENT-INFORMATIONAL)**
   A representative of McGowan Guntermann will present the Committee with an update of the District's draft Financial Statements for fiscal year 2014-15.

8. **DRAFT CASH RESERVES POLICY (ATTACHMENT-ACTION MAY BE TAKEN)**
   The Committee will be requested to provide comments and direction on the attached first draft of the proposed Cash Reserves Policy.

9. **OTHER**

10. **ADJOURNMENT**

AMERICANS WITH DISABILITIES ACT: If you need special assistance to participate in this meeting, please contact the MTD Administrative Office at 963-3364 at least **48 hours in advance** of the meeting to allow time for MTD to attempt a reasonable accommodation.

MINUTES

MEETING OF THE
FINANCE COMMITTEE
OF THE
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A PUBLIC AGENCY
TUESDAY, SEPTEMBER 22, 2015
9:00 A.M.
SANTA BARBARA MTD CONFERENCE ROOM (UPSTAIRS)
550 OLIVE STREET, SANTA BARBARA, CA 93101

1. CALL TO ORDER
Committee Chair Shelor called the meeting to order at 9:05 a.m.

2. ROLL CALL OF THE FINANCE COMMITTEE
Committee Chair Shelor reported that all members were present.

3. REPORT REGARDING POSTING OF THE AGENDA
Natasha Garduno, Executive Assistant, reported that the agenda was posted on September 18, 2015 at MTD's Administrative Office, mailed and emailed to those on the agenda list, and posted on MTD's website.

4. APPROVAL OF PRIOR MINUTES (ATTACHMENT- ACTION MAY BE TAKEN)
Director Tabor moved to waive the reading of and approve the draft minutes for the meeting of August 31, 2015. Director Aceved seconded the motion. The motion passed unanimously.

5. PUBLIC COMMENT
None was made.

6. INCREASE OF GENERAL MANAGER'S LIABILITY AND WORKER'S COMPENSATION SETTLEMENT AUTHORITY- (ATTACHMENT- ACTION)
Staff presented the Finance Committee with a recommendation that the General Manager's settlement authorization increase as follows:

- Liability claims, increase from $4,999.99 to $25,000.
- Worker's Compensation claims, increase from $4,999.99 to $75,000.

The Finance Committee discussed the recommendation with staff and provided guidance. The committee requested that staff take the item to the full board at the next Board meeting.

7. OTHER
No other items were discussed.

8. ADJOURNMENT
The meeting was adjourned at 9:30 a.m.

MTD Santa Barbara

FINANCE COMMITTEE REPORT

MEETING DATE: November 17, 2015 **AGENDA ITEM #:** 6

DEPARTMENT: RISK **TYPE: ACTION**

PREPARED BY: MARY GREGG ______________________________
Signature

REVIEWED BY: GENERAL MANAGER ______________________________
GM Signature

SUBJECT: **Directors and Officers (D&O) and Fiduciary Liability Insurance**

RECOMMENDATION:

That the Finance Committee considers recommending binding coverage for Directors and Officers insurance underwritten by Allied World through Professional Governmental Underwriters, Inc., and Fiduciary Liability insurance with Travelers, for the effective dates 1/3/15 – 1/3/16.

ANALYSIS:

The options in the insurance market in California for D&O and EPL are shrinking as carriers are leaving the state due to the high cost and increasingly large number of these types of claims. MTD's current carrier is RSUI Indemnity Company. RSUI has been severely affected by losses in California and they continue to increase their pricing and tighten their underwriting, particularly in the EPL market in which in the previous year they have moved away from third-party liability coverage.*

DISCUSSION:

The current policy has a shared $3,000,000 limit between three lines of coverage: Directors and Officers (D&O), Fiduciary, and Employment Practices Liability (EPL). In reviewing terms of the policies and limits, Staff's assessment is that the stand alone policies being recommended provide better coverage for the District compared to the current shared coverage limit. Bob Fatch of Brown and Brown, MTD's insurance broker, reports that RSUI will not unbundle the current policy and is unable to compete with our carriers to provide the District with individual policies. After a comprehensive market search, Allied World and Travelers have offered the best terms.

BUDGET/FINANCIAL INFORMATION:

Carrier:	**RSUI** Expiring	**RSUI** Renewal Offer	**Allied World** New Offer	**Travelers** New Offer
Policy:	D&O, Fiduciary, and EPL	D&O, Fiduciary, and EPL	D&O	Fiduciary

Premium:	$42,715	$60,038	$24,927	$3,706
Limits:	$3,000,000 Shared ($2,000,000 Fiduciary sublimit part of the shared limit)	$3,000,000 Shared ($2,000,000 Fiduciary sublimit part of the shared limit)	$3,000,000	$2,000,000
Deductible:	D&O- $50,000 Fiduciary-$5000 EPL-$150,000	D&O- $50,000 Fiduciary-$5000 EPL-$150,000	$50,000	$0
Notes:	Duty to Defend wording deleted	Duty to Defend wording deleted	Duty to Defend wording included	N/A

*EPL covers wrongful acts arising from the employment process. It is designed to address an entity's exposure to most employment practice-related claims, on a first- and third-party basis. Third-party coverage protects an organization and its employees from accusations of wrongful acts committed by third parties against its employees. MTD is especially vulnerable to harassment and discrimination claims by the large extent to which operations involve contact with the public, making third-party a critical coverage option. According to Bob Fatch, RSUI made the decision to discontinue offering third-party coverage to organizations with meaningful third party exposure. MTD's General Manager has acted to mitigate potential exposure in this area by executing an insurance policy, offering first-party and third-party coverage, with carrier OneBeacon under the following terms:

Premium:	Limits:	Deductible:	Notes:
$39,530	$3,000,000	$150,000	Prior acts included.

MTD Santa Barbara

FINANCE COMMITTEE REPORT

MEETING DATE: November 17, 2015 **AGENDA ITEM #:** 7

TYPE: Information

PREPARED BY: Brad Davis

Signature

REVIEWED BY: General Manager

GM Signature

SUBJECT: **Discussion Regarding Draft Financial Statements for Fiscal Year 2014-15**

DISCUSSION:

A representative of McGowan Guntermann will present the Committee with an update of the District's draft Financial Statements for fiscal year 2014-15. Special emphasis will be placed on the impact of Governmental Accounting Standards Board – Statement No. 68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 on the District's financial statements.

SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015 AND 2014

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

June 30, 2015 and 2014

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

111 E. Victoria Street 2nd Floor, Santa Barbara, CA 93101, (805) 962-9175, Fax: (805) 962-8925, www.mcgowan.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

We have audited the accompanying financial statements as listed in the preceding table of contents of the Santa Barbara Metropolitan Transit District (District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Management has not obtained an actuarial valuation analysis in order to implement Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71 *Pension Transition for Contributions Made Subsequent to Measurement Date* related to its participation in the Western Conference of Teamsters Pension Plan, which is required to be implemented in the June 30, 2015 financial statements. The amount by which this departure would affect the assets, liabilities, net position and expenses and the related disclosures of the District has not been determined.

Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Metropolitan Transit District as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I - VI and the schedule of funding progress of other postemployment healthcare plan on page 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November xx, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

November xx, 2015

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF NET POSITION
June 30, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and equivalents	$ 15,132,316	$ 15,814,022
Grants receivable	2,387,268	333,043
Other receivable	201,410	169,773
Materials and supplies inventories	1,176,654	1,102,634
Other current assets	206,359	287,373
Total Current Assets	19,104,007	17,706,845
NON-CURRENT ASSETS		
Cash restricted for capital support	6,202,649	3,336,694
Capital assets:		
Tangible transit operating property	66,464,636	63,346,400
Less: Accumulated depreciation	(37,684,351)	(34,398,094)
Capital Assets, net	28,780,285	28,948,306
Total Non-Current Assets	34,982,934	32,285,000
TOTAL ASSETS	$ 54,086,941	$ 49,991,845

LIABILITIES AND NET POSITION

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 388,016	$ 408,129
Accrued payroll including compensated absences	734,963	704,667
Accrued expenses	138,454	203,702
Total Current Liabilities	1,261,433	1,316,498
NON-CURRENT LIABILITIES		
Compensated absences payable	741,536	730,720
Accrued damage, injury, and employee claims	3,915,421	3,783,549
Accrued other post employment benefits	2,892,000	2,743,000
Total Non-Current Liabilities	7,548,957	7,257,269
Total Liabilities	8,810,390	8,573,767
NET POSITION		
Invested in capital assets	28,780,285	28,948,306
Restricted	6,202,649	3,336,694
Unrestricted	10,293,617	9,133,078
TOTAL NET POSITION	45,276,551	41,418,078
TOTAL LIABILITIES AND NET POSITION	$ 54,086,941	$ 49,991,845

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUE, NOT INCLUDING LOCAL AND FEDERAL ASSISTANCE		
Passenger fares	$ 8,275,150	$ 8,127,762
OPERATING EXPENSES		
Vehicle operations	13,510,763	13,026,262
Vehicle maintenance	5,492,877	5,692,758
Passenger facilities	1,502,498	1,350,016
General overhead	2,530,480	2,548,224
Postemployment health care benefits (Notes 15 - 16)	216,712	207,974
Total before Depreciation	23,253,330	22,825,234
Depreciation	3,595,013	3,271,993
Total Expenses	26,848,343	26,097,227
OPERATING LOSS	(18,573,193)	(17,969,465)
NON-OPERATING REVENUE		
Non-transportation revenue, including interest, advertising, rent and miscellaneous	781,640	825,217
Taxes levied by Santa Barbara County for Transit District	1,028,132	985,328
Transportation Development Act funding and allocations	8,934,299	7,366,649
Federal grants	4,940,726	4,920,840
Proposition 1B grants	3,358,483	264,214
Measure A grants	3,253,535	2,081,142
Miscellaneous grants	136,237	202,483
Loss on disposal of assets	(1,386)	(62,168)
Total Non-Operaiting Revenue	22,431,666	16,583,705
CHANGE IN NET POSITION	3,858,473	(1,385,760)
BEGINNING OF YEAR NET POSITION	41,418,078	42,803,838
END OF YEAR NET POSITION	$ 45,276,551	$ 41,418,078

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF EXPENSES
For the Years Ended June 30, 2015 and 2014

	2015	2014
LABOR		
Operators' wages	$ 6,499,198	$ 6,326,225
Other salaries and wages	3,770,128	3,826,913
Total Labor	10,269,326	10,153,138
FRINGE BENEFITS		
Payroll taxes	939,304	919,093
Retirement plans	1,343,545	1,276,958
Health and welfare (Notes 15 and 16)	2,658,167	2,399,864
Workers compensation	543,751	1,135,524
Sick pay	291,196	260,574
Holiday pay	382,724	378,189
Vacation pay	795,065	781,285
Other paid absences	95,688	75,099
Uniforms and tool allowances	69,131	46,622
Total Fringe Benefits	7,118,571	7,273,208
SERVICES		
Professional and technical including directors' fees	394,989	346,088
Outside services	104,249	92,369
Contract maintenance services	495,587	332,886
Promotion and printing	119,265	89,515
Total Services	1,114,090	860,858
MATERIALS AND SUPPLIES		
Fuels and lubricants	2,173,264	2,226,490
Tires and tubes	155,752	149,126
Bus parts	546,021	632,100
Other materials and supplies	195,383	197,174
Electric bus power	79,001	81,593
Total Material and Supplies	3,149,421	3,286,483
UTILITIES AND TELEPHONE	216,966	203,375
CASUALTY AND LIABILITY COSTS	565,471	338,754
PURCHASED TRANSPORTATION	629,064	624,268
MISCELLANEOUS EXPENSES		
Dues and subscriptions	44,190	42,907
Travel, meetings and training	12,385	21,088
Purchased media	155	2,852
Other miscellaneous expenses	133,691	139,303
Total Miscellaneous Expenses	190,421	206,150
Total Expenses before Depreciation	23,253,330	22,946,234
DEPRECIATION	3,595,013	3,271,993
TOTAL EXPENSES	$ 26,848,343	$ 26,218,227

The accompanying notes are an integral part of these basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATIONS		
Receipts from transit customers	$ 8,268,737	$ 8,106,340
Payments to suppliers and vendors	(5,855,945)	(5,116,846)
Payments to employees/benefits	(17,177,606)	(17,093,095)
NET CASH USED BY OPERATING ACTIVITIES	(14,764,814)	(14,103,601)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	12,606,351	19,495,942
Non-transportation revenue, including advertising, rental and miscellaneous	746,613	754,911
Taxes levied by Santa Barbara County	1,028,132	985,328
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	14,381,096	21,236,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(3,445,619)	(5,038,659)
State of California Prop 1B grant advance	237,322	264,214
State of California Prop 1B PTMISA grant advance	3,156,590	-
Federal, state and local capital grants received	2,579,798	1,542,451
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	2,528,091	(3,231,994)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	39,876	82,938
NET CASH PROVIDED BY INVESTING ACTIVITIES	39,876	82,938
NET INCREASE IN CASH AND EQUIVALENTS	2,184,249	3,983,524
CASH AND EQUIVALENTS		
BEGINNING OF YEAR	19,150,716	15,167,192
END OF YEAR	$ 21,334,965	$ 19,150,716
Cash and equivalents	$ 15,132,316	$ 15,814,022
Cash restricted for capital support	6,202,649	3,336,694
TOTAL CASH AND EQUIVALENTS	$ 21,334,965	$ 19,150,716

The accompanying notes are an integral part of these basic financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (18,573,193)	$ (17,969,465)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation	3,595,013	3,271,993
Loss on disposal of assets	1,386	62,168
Changes in:		
Other receivable - excluding grants	(31,637)	(23,999)
Materials and supplies inventories	(74,020)	24,078
Other current assets	81,014	(105,687)
Accounts payable and accrued expenses net of capital acquisitions	(55,065)	58,165
Compensated absences payable	10,816	1,792
Accrued damage, injury, and employee claims	131,872	426,354
Accrued other post employment benefits	149,000	151,000
NET CASH USED BY OPERATING ACTIVITIES	$ (14,764,814)	$ (14,103,601)

The accompanying notes are an integral part of these basic financial statements.

Note 1 – REPORTING ENTITY

The Santa Barbara Metropolitan Transit District, a government entity, was formed under the terms of the Santa Barbara Metropolitan Transit District Act for 1965, Part 9, of the California Public Utilities Code amended in 1967. The District provides local public transportation services to the metropolitan Santa Barbara area which encompasses the outlying communities of Goleta, Montecito and Carpinteria.

In accordance with the requirements of Governmental Accounting Standards Board, the financial statements must present the District (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District, the reporting entity. The District accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services. All other revenues and expenses are reported as nonoperating revenues and expenses. The accounting records of the District are subject to the uniform accounting system for transit districts as set forth by the Federal Transit Authority (FTA) and the State Controller.

Taxes, including homeowners' property tax relief, are remitted from the County Tax Collector. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1 to June 30	
Due Date	November 1	(1st installment)
	February 1	(2nd installment)
Delinquent Date	December 10	(1st installment)
	April 10	(2nd installment)

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the District based on complex formulas prescribed by state statutes.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

The District receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. The amounts recorded as capital grant revenue and advances in fiscal 2015 and 2014 were $3,445,618 and $5,038,659, respectively.

For purposes of the statement of cash flows, the District considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital assets are stated at cost, less accumulated depreciation computed on the straight-line method over the following lives:

Buildings	20 to 40 years
Buses and equipment	3 to 12 years
Office and shop equipment	5 to 10 years
Automotive equipment	3 to 5 years

The inventories are composed of bus parts, fuels and lubricants and are valued at cost on a weighted-average basis.

The District accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2015 and 2014 was $809,713 and $783,250, respectively.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Certain reclassifications have been made to the prior year's financial statements to conform to the 2015 presentation.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section or deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of Governmental Accounting Standards Board Statements TO BE UPDATED

GASB Statement No. 67 – In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25.* The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The District has not determined its effect on the financial statements.

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined its effect on the financial statements.

GASB Statement No. 71 – Subsequent to GASB Statement No 68 issuance, the GASB issued *Pension* Transition *for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68.* These changes have the same effective date as GASB 68, and the District has not determined its effect on the financial statements.

Note 3 – DEPOSITS AND INVESTMENTS

At June 30, 2015 and 2014, the composition of cash deposits consisted of petty cash and change funds, money market accounts, and certificates of deposit as follows:

	2015 Fair Value	2014 Fair Value
Cash deposits		
Money market accounts	$11,725,496	$12,415,863
Prop 1B-OHS savings	503,199	764,692
Prop 1B-PTMISEA savings	5,699,450	2,572,002
Local Agency Investment Fund (LAIF)	3,340,359	3,331,694
Total cash deposits	21,268,504	19,084,251
Petty cash and change funds	66,461	66,461
Total	$21,334,965	$19,150,712

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All of the District's funds are held in two financial institutions, Union Bank (Bank) and the State of California's Local Agency Investment Fund (LAIF). All of these funds are insured or collateralized. The Bank funds are collateralized by the Bank's trust department but not in the District's name. The District does not have a formal investment policy. As of June 30, 2015 the District had $503,199 of Prop 1B-OHS cash restricted for use in acquiring AVL/security cameras for the District. The District also had $5,699,450 of Prop 1B-PTMISEA cash restricted for the acquisition of replacement buses ($2,785,758), AVL/Smartcards ($1,913,962), and Transit Center renovation projects ($1,000,000).

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Note 3 – DEPOSITS AND INVESTMENTS (continued)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool as of June 30, 2015, $3,340,359, is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – RECEIVABLES

Grants receivable at June 30, 2015 and 2014, are summarized as follows:

	2015	2014
Federal Transit Administration	$ 1,664,484	$ 18,889
State Transit Assistance Fund (SB 620)	182,468	123,878
Other grants	540,316	193,744
	$ 2,387,268	$ 336,511
Other receivables are as follows		
Trade receivables	$ 201,410	$ 166,305

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5 – CAPITAL ASSETS

Changes in transit operating property during the years ended June 30, 2015 and 2014, are as follows:

	July 1, 2014	Additions	Reclassi-fications	Disposals	June 30, 2015
Capital assets not depreciated					
Land	$ 5,596,296	$ -	$ -	$ -	$ 5,596,296
Work in process	357,025	761,563	-	(14,395)	1,104,193
Capital assets depreciated					
Buildings	12,921,894	8,089		(424)	12,929,559
Buses	39,944,649	2,595,186	-	(285,978)	42,253,857
Other equipment	4,526,536	80,780	-	(26,586)	4,580,730
	$ 63,346,400	$ 3,445,618	$ -	$ (327,383)	$ 66,464,635

	July 1, 2013	Additions	Reclassi-fications	Disposals	June 30, 2014
Capital assets not depreciated					
Land	$ 5,596,296	$ -	$ -	$ -	$ 5,596,296
Work in process	245,854	183,145	(31,547)	(40,428)	357,024
Capital assets depreciated					
Buildings	12,879,816	64,077	-	(21,999)	12,921,894
Buses	37,467,385	4,674,799	31,547	(2,229,081)	39,944,650
Other equipment	4,600,108	116,638	-	(190,210)	4,526,536
	$ 60,789,459	$ 5,038,659	$ -	$ (2,481,718)	$ 63,346,400

Note 6 – NET POSITION

The majority of unrestricted net position represents excess Transportation Development Act revenue received. Pursuant to Section 6634 of the California Administrative Code - Transportation Development Act, a transit claimant is precluded from receiving monies from the Local Transportation Fund and State Transit Assistance Fund in an amount which exceed that claimant's capital and operating costs, less the required fares, local support, and the amount received during the year from a city or county to which the operator provides service beyond its boundaries. The District receives notification of its TDA allocation for the next fiscal year in February of the preceding year. The District's fiscal year extends from July to June. The District is required to submit its claim for the subsequent year by April 1st. As such, the claim is based on the District's draft budget for the coming year. As a result, actual operating expenditures and capital acquisitions tend to vary resulting in the aforementioned unrestricted net position. The funds provide working capital (cash flow) to the District throughout the year and act as a reserve for any unexpected events.

Restricted net position represent prefunding of Prop 1B grants from the State of California for capital acquisitions (see note 3).

Capital Contributions

The District receives grants from the Federal Transit Administration (FTA), State, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets are included in property and equipment. Depreciation on assets acquired with capital grant funds is included in the Statement of Revenues, Expenses and Changes in Net Position.

Capital contributions for the years ended June 30 were as follows:

	2015	2014
Federal grants	$ 26,363	$ 23,212
State grants (Prop 1B and Measure A)	1,717,371	4,733,166
Local assistance – sales tax	1,664,693	123,878
Miscellaneous grants	19,949	108,635
Net grants received	$3,428,376	$4,988,891

Note 7 – TRANSPORTATION DEVELOPMENT ACT FUNDING AND ALLOCATIONS

Transportation development act funding and allocations for the year ended June 30:

	2015	2014
Funding		
Local Transportation Fund (SB 325)	$ 7,269,606	$ 7,242,771
State Transit Assistance Fund (SB 620)	1,664,693	123,878
	$ 8,934,299	$ 7,366,649
Usage		
Operations	$ 7,269,606	$ 7,242,771
Capital projects	1,664,693	123,878
	$ 8,934,299	$ 7,366,649

Note 8 – FEDERAL GRANTS AND REIMBURSEMENTS

Federal grants and reimbursements for the year ended June 30:

	2015	2014
FTA		
Operating grants	$ 4,914,363	$ 4,943,999
Capital grants	26,363	23,212
Total	$ 4,940,726	$ 4,967,211

Note 9 – CHANGE IN COMPENSATED ABSENCES

Employees annually accrue compensated absence time, consisting of vacation and sick time dependent on job classification and tenure ranging from 80 hours to 320 hours per year. Accrued compensated absences for vacation in fiscal years ending June 30, 2015 and 2014, were $809,713 and $783,250 respectively. The current portion is expected to be used within one year. Accrued sick pay vested in fiscal years ending June 30, 2015 and 2014, were $384,064 and $450,176 respectively.

Note 9 – CHANGE IN COMPENSATED ABSENCES (continued)

The changes in accrued vacation pay were as follows:

	2015	2014
Beginning balance	$ 783,250	$ 771,292
Additions	729,642	728,925
Payments	(703,179)	(716,967)
Ending balance	809,713	783,250
Current portion	408,996	390,821
Noncurrent portion	$ 400,717	$ 392,429

Accrued sick pay is summarized as follows:

	2015	2014
Total accrued sick pay	$1,469,194	$1,553,726
Amount of sick pay not vested, in accordance with the union agreement and District policy	(1,085,130)	(1,448,550)
Total accrued sick pay vested and included in accrued payroll	$ 384,064	$ 405,176

Note 10 – RETIREMENT PLANS

Two employee groups are covered, with expenses as follows::

Employee Group	Plan names	2015 Cost	2014 Cost
1. Union	Teamsters Union	$ 1,218,590	$ 1,062,278
2. Non-Union	Profit-Sharing and Salary Deferral Plan	214,956	214,679
		$ 1,343,546	$ 1,276,957

TEAMSTERS PENSION PLAN

This plan covers union employees and is a "cost sharing" plan. The District had the following statistics:

	2015	2014
Total union labor	$10,284,152	$10,166,450
Pensionable wages	9,390,181	9,120,618
Required work hour contribution (up to 173 hours per month)	$3.24	$3.18
Total pension hours	339,241	333,550

Since the District is not involved with the operations or administration of the Teamsters Pension Plan, information relating to the current funding liability is not available. Based on the most recent actuarial certification the Plan is in the “green zone” for 2015, meaning the Plan is in good financial condition. More information can be found at http://www.wctpension.org/index.html.

Note 10 – RETIREMENT PLANS (continued)

PROFIT-SHARING AND SALARY DEFERRAL PLAN

Effective July 1, 1985, the District established the above-named retirement plans for employees not covered by the union plan. The plans are administered by the District, which contracts the administration to NFP Retirement.

The District contributes to the Profit-Sharing and Salary Deferral Plan an amount equal to 3% and 7%, respectively, of the compensation for all eligible participants. Contributions by the District to the Salary Deferral Plan are fully vested at the time of contribution. Contributions by the District to the Profit-Sharing Plan are vested ratably over a four-year period. The District is not obligated to make contributions to the Profit-Sharing Plan however its contributions must be regular and continuing in order for the Plan to receive favorable tax treatment under Internal Revenue Code Section 401(k).

The District's contributions for fiscal year 2015 were based upon a payroll of $2,149,564 for non-union employees. The District contributed $214,956 (10% of covered payroll) and covered employees contributed $308,602.

The District's contributions for fiscal year 2014 were based upon a payroll of $2,146,794 for non-union employees. The District contributed $214,679 (10% of covered payroll) and covered employees contributed $215,408.

Note 11 – RISK MANAGEMENT

The District is exposed to various risks of losses related to injuries to employees and the public, damage to and destruction of assets, and errors and omissions.

The District has Self-Insured Retention policies with general liability coverage of $10 million on any one claim, including self-insured amounts per claim as follows:

April 1, 1995 to March 31, 2001	$250,000
April 1, 2001 to March 31, 2002	$100,000
April 1, 2002 to March 31, 2015	$250,000

The District has elected to self-insure its obligations for workers' compensation claims. On January 1, 2005, the District joined CSAC Excess Insurance Authority with a self-insurance retention of $500,000 and a limit of $5 million on any one claim. Claim amounts exceeding $5 million are covered statutorily by the state of California. For calendar year 2004, the District was self-insured to $1.5 million with a $10 million limit on any one claim. In 2003, the District carried workers' compensation insurance in excess of $500,000 with a $5 million limit on any one claim.

There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the four years prior.

Note 11 – RISK MANAGEMENT (continued)

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District's insurance adjusters and attorneys help to determine the amount of actual or potential claims against the District. An analysis of claims activities for general liability and workers' compensation liability is presented below:

	2015	2014
Claims liability – beginning of year	$ 3,783,551	$ 2,057,804
Claims and changes in estimates	489,355	2,128,654
Actual claim payments	(357,484)	(402,907)
Claims liability – end of year	$ 3,915,422	$ 3,783,551

Note 12 – COMMITMENTS

Paratransit Service – Easy Lift

For fiscal year 2016, the District has agreed to provide Easy Lift a subsidy of $825,511 for the paratransit services. The amount can be adjusted by mutual consent if the District requests an adjustment in the amount of paratransit service to be provided, and the contract can be extended up to and including June 30, 2017. If for any reason, Easy Lift failed to provide the required ADA paratransit service, the District would continue to be responsible for the service under Federal law. The District would be required to implement a replacement service on very short notice, at a cost that would likely exceed the current subsidy.

The District is required under Federal law, the Americans with Disabilities Act of 1990 (ADA), to ensure that complementary paratransit service is available wherever and whenever the District provides fixed-route bus service. The District complies with this requirement by partially subsidizing the paratransit service provided by Easy Lift Transportation. The District signed a contract with Easy Lift in March 2003, which was amended in May 2013, for these services. Either party can terminate this agreement within 120 days of year end.

Bus Tire Lease

The District has a contract with the Goodyear Tire & Rubber Company (Goodyear) to furnish the District with a sufficient quantity of tires to keep all vehicles fully equipped and to provide a reserve supply, at a maximum level determined by Goodyear, as spare stock inventory to be mounted on rims and kept in the District's garage for use in case of emergency. The District provides Goodyear with mileage for each vehicle in its fleet on a monthly basis and is billed in accordance with its agreement. Both parties have the option to terminate this agreement with 30-days' notice. The rates per tire increase by an agreed-upon percentage annually.

Note 12 – COMMITMENTS (continued)

For fiscal year 2015, the rates paid by the District for contractual amounts are as follows:

Gilligs	$.042648
MCI	$.056864
Novas/Gilligs	$.055632
Group D Novas	$.058410
Novas – Articulated	$.077880

Note 13 – CONTINGENCIES

<u>Federal Grant Contracts</u>

The terms of the federal grant contracts require the District to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Note 14 - DEFINED BENEFIT POST-EMPLOYMENT HEALTH BENEFIT PLAN

Plan Descriptions

The District provides postretirement health benefits in the form of monthly reimbursement towards the retiree's health plan premium for eligible union retirees, and eligible staff retirees and their spouses of amounts not to exceed $285 per month. Benefits for both union and non-union retirees are provided by United Healthcare group plan.

Funding Policy and Annual OPEB Cost

The Plan is funded on a pay-as-you-go basis. The District's annual other post-employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the normal cost and amortization of unfunded actuarial liabilities over 30 years. The District's annual OPEB cost for the fiscal year 2015 and related information are as follows:

	2015	2014
ARC	$ 198,000	$ 190,000
Interest on net OPEB obligation	137,000	130,000
Adjustment to ARC	(118,000)	(112,000)
Annual OPEB cost	217,000	208,000
Contributions made	(68,000)	(57,000)
Increase in net OPEB obligation	149,000	151,000
Net OPEB obligation beginning of year	2,743,000	2,592,000
Net OPEB obligation end of year	$ 2,892,000	$2,743,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation, were as follows:

Year Ended	Annual OPEB Cost	Actual Contribution	% of OPEB Cost Contributed	Net OPEB Obligation
6/30/11	$ 1,154,000	$ 133,000	11.5%	$ 2,825,000
6/30/12	974,000	158,000	16.2%	3,641,000
6/30/13	1,033,000	76,000	7.4%	2,592,000
6/30/14	208,000	57,000	27.4%	2,743,000
6/30/15	217,000	68,000	31.3%	2,892,000

Note 14 - DEFINED BENEFIT POST-EMPLOYMENT HEALTH BENEFIT PLAN (continued)

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2015 and 2014, was as follows:

	2015	2014
Actuarial accrued liability (a)	$3,232,000	$2,743,000
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (funding excess) (a)-(b)	$3,232,000	$2,743,000
Funded ratio (b) / (a)	0%	0%
Covered payroll (c)	$12,557,429	$10,439,608
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)-(b)]/(c))	25.7%	26.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	6/30/2015
Actuarial cost method	Entry Age
Amortization method	Level percentage of pay
Remaining amortization period	Open 30 years
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increase	3.25%
Healthcare inflation rate	
Initial	5% to 9.3%,
Ultimate, # of years	4.5% after 8 years

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

Required Supplementary Information

Schedule of Funding Progress of Post-Employment Healthcare Plan

The following Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The interest rate is 5% and the salary scale is 3.25% for both periods. (Amounts in thousands of dollars).

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actual	7/1/2009	$0	$11,166	$11,166	$0	$10,617	105.2%
Actual	7/1/2011	$0	$10,725	$10,725	$0	$ 9,902	108.3%
Actual	7/1/2013	$0	$ 2,592	$ 2,592	$0	$10,111	25.6%
Actual	7/1/2015	$0	$ 3,232	$ 2,892	$0	$12,557	25.7%

Actuarial review and analysis of OPEB liability and funding status is performed every two years or annually if there are significant changes in the plan. The next scheduled actuarial study for the District is in 2017.

MTD Santa Barbara

FINANCE COMMITTEE REPORT

MEETING DATE: NOVEMBER 17, 2015 **AGENDA ITEM #: 8**

TYPE: ACTION

PREPARED BY: BRAD DAVIS ______________________ *Signature*

REVIEWED BY: GENERAL MANAGER ______________________ *Signature*

SUBJECT: **Draft Cash Reserves Policy**

RECOMMENDATION:

The Committee will be requested to provide comments and direction on the attached first draft of the proposed Cash Reserves Policy.

DISCUSSION:

Background

The Finance Committee had previously indicated to staff the need for the development of a reserve fund policy. While the District considers a portion of its cash and cash equivalents as reserves—and indicated as such on the Cash Report provided to the Board of Directors—there is currently no formal policy that establishes specific reserve types and funding levels. Staff provided the Finance Committee with a suggested approach to developing a cash reserve policy at its August 31, 2015, meeting. Based on feedback from the Committee at that time, a draft Cash Reserves Policy has been developed and is attached for your consideration.

Purpose

The establishment and funding of cash reserves is based upon prudent financial management. A reserve policy will greatly increase the District's ability to maintain continued fiscal health and minimize interruptions in transit service in the event of economic disruptions, natural disasters, major funding losses, and other significant unexpected occurrences. Additionally, reserves provide for the normal working capital needs of the District and as well as the replacement and addition of its capital assets. As described by the California Special Districts Association:

> "Reserves are the foundation of the sustainable delivery of core services. Through prudent reserves, special districts offer taxpayers and ratepayers significant benefits including savings to balance budgets, emergency preparedness, stable rates, well maintained infrastructure, and investment in the future.[1]"

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[1] California Special Districts Association, *Special District Reserve Guidelines-Second Edition* (2013), 6.

Description

As presented to the Committee last August 31, staff is recommending the formation of four separate cash reserve funds. The attached Cash Reserves Policy includes detailed information on the reserves. A summary of key information is provided in the below table.

RESERVE TYPE	PURPOSE OF RESERVE	TARGET RESERVE LEVEL
Working Capital	Cash flow requirements of the District to avoid disruption of ongoing operating activities	Prior Year FTA Operating Assistance
Appropriated	Unbudgeted important operating or capital needs arising during the course of the fiscal year	2% of Operating Budget
Emergency	Extraordinary losses from natural disasters and major funding eliminations or suspensions	10% of Operating Budget
Capital	Future capital expenditures for replacement, improvement, or expansion of capital assets	Average of depreciation expense for preceding 3 years plus 10%

Funding

The funding of cash reserves would be provided from the District's cash balances that are not specifically dedicated to other purposes by statute, grant, contract, or direction of the Board. Because of the nature of fund accounting, the source of reserve funds is represented by the District's unrestricted net assets—which are reported on the Statement of Net Assets (i.e., the balance sheet). At the end of FY14/15, the District carried an unrestricted net assets balance of $10,293,617. Changes in the balance are for the most part determined by the operating surplus or deficit for the year. The tables below show the projected operating budget over the next five years and its effect on the unrestricted net assets balance and by extension the ability of the District to fund the recommended cash reserves.

Operating Budget Projection

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Operating Revenues	$24,902,995	$25,134,578	$25,556,144	$25,989,438	$26,448,139
Operating Expenditures	25,122,302	25,955,860	26,891,242	27,803,663	28,827,048
Budget Surplus/(Deficit)	($219,307)	($821,282)	($1,335,099)	($1,814,225)	($2,378,909)

Change in Unrestriced Net Assets

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Start of Year Unrestricted Net Assets	$10,293,617	$10,074,310	$9,253,028	$7,917,929	$6,103,705
Budget Surplus/(Deficit)	(219,307)	(821,282)	(1,335,099)	(1,814,225)	(2,378,909)
End of Year Unrestricted Net Assets	$10,074,310	$9,253,028	$7,917,929	$6,103,705	$3,724,796

As is the practice of the District, the five-year budget projection is developed using conservative estimates. With recent and anticipated future trends, this leads to increasing budget deficits. It should be noted that the margin of error increases with each succeeding year. As a result, only the first two years should be considered with some degree of confidence. Nonetheless, the numbers do indicate a situation that will likely affect the ability of the District to fund reserves in the future.

The first table below shows the cash reserves that meet the calculated target funding levels. The second table indicates what the actual cash reserves would be taking into account the projected deficits. The final line represents the shortfall in meeting the reserve levels for each year. The projection concludes that the level of restricted net assets will support the full funding of proposed operating-related cash reserves for this and the following fiscal year. Thereafter, projections show a growing gap between the targeted and actual reserve funding levels.

Targeted Reserve Balances

RESERVE FUNDS	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Working Capital	$4,943,999	$4,943,999	$4,943,999	$4,943,999	$4,943,999
Emergency	2,512,230	2,595,586	2,689,124	2,780,366	2,882,705
Appropriated	502,446	519,117	537,825	556,073	576,541
Total Reserves Target Balance	$7,958,675	$8,058,702	$8,170,948	$8,280,439	$8,403,245

Projected Reserve Balances

RESERVE FUNDS	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Working Capital	$4,943,999	$4,943,999	$4,943,999	$4,943,999	$4,001,083
Emergency	2,512,230	2,595,586	2,689,124	1,381,337	0
Appropriated	502,446	519,117	441,967	0	0
Total Reserves Projected Balance	$7,958,675	$8,058,702	$8,075,090	$6,325,336	$4,001,083
Total Targeted Reserves Shortfall	$0	$0	$95,858	$1,955,102	$4,402,161

The capital reserve fund, also referred to as a sinking fund, is not addressed in the above discussions because the capital budget is generally more complex and filled with uncertainty than the operating budget. Many of the funding sources are discretionary programs that are irregular in frequency and amount. Capital acquisitions also vary considerably by year and amount. At this point, staff is recommending the use of a simple but common method for determining a capital reserve level based on the cost of replacing equipment as measured by the District’s depreciation expense. Staff will come back in the future with a more comprehensive methodology that will more closely represent an accurate reserve level.

To address the means of maintaining adequate cash reserves requires the same analysis necessary for consideration of the options available for confronting the projected operating deficits. It necessarily involves key policy decisions concerning such matters as service levels and fares structures. Such consideration is beyond the scope and purpose of this report.

Santa Barbara Metropolitan Transit District
Cash Reserves Policy

Effective Date: December 1, 2015

I. Purpose

The establishment of cash reserves is based upon prudent financial management. A reserve policy will greatly increase the District's ability to maintain continued fiscal health and minimize interruptions in transit service in the event of economic disruptions, natural disasters, major funding losses, and significant risk-related outlays. Additionally, the funding of reserves provides for the replacement or addition of District capital assets.

This policy covers the type and purpose of the cash reserves funds to be established, the process for determining the target reserve amount, the authority for using accumulated reserves, and the means for funding the reserves.

II. Reserve Funds

The following cash reserve funds shall be established by the District, which shall be funded to the target dollar sum in the order in which they are presented below.

A. Working Capital Reserve

Basis – A working capital reserve shall be funded to meet the normal cash flow requirements of the District to avoid disruption of operating activities. Working capital is specifically required for:

- Regular short-term cash flow requirements to accommodate normal operating costs.
- Receipt of federal operating assistance late or in the following fiscal year.
- Upfront outlays for capital acquisitions that are funded on a reimbursement basis.

Target – The amount of the reserve shall be equal to the FTA 5307 operating funds budgeted for the fiscal year which is considered sufficient to meet all three needs.

Usage – Use of working capital reserves shall be at the discretion of the General Manager to meet cash flow needs as they arise.

B. Appropriated Reserve

Basis – An appropriated reserve shall be used as a contingency fund in the event of unanticipated, non-emergency, high-priority operating or capital needs that may arise during the fiscal year. Examples include economic downturns affecting revenue, volatile energy costs, and significant self-insurance outlays.

Target – The amount of the reserve shall be 2% of the approved operating budget.

Usage – Use of the appropriated reserve shall require approval of the Board of Directors.

C. Emergency Reserve

Basis – An emergency reserve shall be used to fund extraordinary losses resulting from natural or man-made disasters, major funding losses or suspensions, and other similar circumstances.

Target – The amount of the reserve shall be 10% of the approved operating budget.

Usage – The General Manager may utilize emergency reserve funds in response to an emergency that threatens the safety of the community and/or provision of public transit service.

Use of the emergency reserve shall be immediately reported to the Board of Directors. When possible, the General Manager will seek Board of Directors approval prior to utilizing emergency reserve funds.

D. Capital Reserve

Basis – A capital reserve shall be funded for the purpose of future capital expenditures for the replacement, improvement, or expansion of District capital assets including but not limited to the revenue vehicle fleet, passenger facilities, and operating facilities.

Target – The base amount of the capital reserve shall be equal to the average of the fixed asset depreciation expense for the preceding three years plus 10%. Additional capital sinking funds may be established by the Board of Directors as needed for projects that require a substantial capital outlay (e.g., a large bus purchase or new facility).

Usage – The General Manager is authorized to commit capital reserve funds provided that such use is consistent with the priorities established by the Board of Directors as part of the annual budget process.

Use of the capital reserve for a project that is not consistent with the priorities established by the Board of Directors as part of the annual budget process shall require the approval of the Board of Directors.

III. Funding

The funding of reserves shall be restricted to District cash and cash equivalents that comprise the District's unrestricted net assets which represent the accumulation of past budget surpluses.

IV. Reporting

Staff shall report to the Board of Directors on the status of the cash reserve funds as part of the annual budget process. If reserve balances are not meeting the balances established in this policy, staff shall develop and include in the report a five-year plan including specific goals for moving towards the desired cash reserve levels.

V. Modifications

This cash reserve policy may be amended at any time by approval of the Board of Directors.