



AGENDA

MEETING OF THE
FINANCE COMMITTEE
OF THE
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A PUBLIC AGENCY
TUESDAY, MARCH 29, 2016
9:00 A.M.
SANTA BARBARA MTD CONFERENCE ROOM (UPSTAIRS)
550 OLIVE STREET, SANTA BARBARA, CA 93101

1. **CALL TO ORDER**
2. **ROLL CALL OF THE FINANCE COMMITTEE**
Dave Tabor, Committee Chair
Roger Aceves, Director
Bill Shelor, Director
3. **REPORT REGARDING POSTING OF THE 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 meeting of March 1, 2016.
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. **DRAFT CASH RESERVES POLICY-(ATTACHMENTS-INFORMATIONAL)**
The Committee will be asked to review the third draft of the Cash Reserves Policy and, if found satisfactory, approve it for bringing to the full Board for its consideration on April 5.
7. **OTHER**
8. **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, MARCH 1, 2016
10:00 A.M.
SANTA BARBARA MTD CONFERENCE ROOM (UPSTAIRS)
550 OLIVE STREET, SANTA BARBARA, CA 93101

1. **CALL TO ORDER**
Chair Tabor called the meeting to order at 10:03 a.m.
2. **ROLL CALL OF THE FINANCE COMMITTEE**
Committee Chair Tabor reported all members were present.
3. **REPORT REGARDING POSTING OF THE AGENDA**
Lilly Gomez, Administrative Assistant, reported that the agenda was posted on Friday February 26, 2016 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 Aceves moved to waive the reading of and approve the draft minutes for the meeting of February 18, 2016. Director Shelor seconded the motion. The motion passed unanimously.
5. **PUBLIC COMMENT**
None was made.
6. **DRAFT FISCAL YEAR 2016-17 OPERATING & CAPITAL BUDGET - (ATTACHMENT- ACTION MAY BE TAKEN)**
The Finance Committee reviewed and authorized forwarding of the draft Fiscal Year 2016-17 Operating & Capital Budget to the full board for its consideration.
7. **OTHER**
No other items were discussed.
8. **ADJOURNMENT**
Director Aceves moved to adjourn the meeting. Director Shelor seconded the motion. The motion passed unanimously.



FINANCE COMMITTEE REPORT

MEETING DATE: MARCH 29, 2016 **AGENDA ITEM #:** 6

TYPE: ACTION

PREPARED BY: BRAD DAVIS _____
Signature

REVIEWED BY: GENERAL MANAGER _____
Signature

SUBJECT: **Draft Cash Reserves Policy**

RECOMMENDATION:

The Committee will be asked to review the third draft of the Cash Reserves Policy and, if found satisfactory, approve bringing it to the full Board for its consideration on April 5.

DISCUSSION:

Background

Staff presented the second draft of Cash Reserves Policy to the Finance Committee last January 19. The Committee authorized staff to present the draft Policy, with minor revisions, to the full Board on February 9, 2016. The Board directed staff to bring the Policy back to the Finance Committee after updating the projected reserve target levels to take into account the upcoming draft FY16-17 budget; developing the capital reserve target level projection; and having the Policy reviewed for legal and accounting compliance.

Draft Revisions

The attached draft Cash Reserves Policy includes modifications that take into account legal counsel recommendations as well as further staff-recommended revisions. A version that highlights the changes is also attached. One change, per direction of the Committee, was to modify the target level for the appropriations reserve fund from a simple 2% of the operating budget to a methodology that is based on the typical fluctuation of key budget line items. Staff included a maximum target level of 5% of the operating budget for the reserve level as well. A paragraph has also been added stipulating that cash reserves shall be included in District financial statements and compliance reports in accordance with generally accepted accounting principles.

Professional Review

Legal review by District counsel found that there were neither legal impediments to adoption of the Policy nor necessary modifications to bring it into regulatory compliance. McGowan Guntermann, the District's financial auditor, is developing guidelines on the proper accounting

treatment for establishing and using the reserve funds should the Policy be adopted. These guidelines are expected to be completed later this week.

Reserve Levels & Funding

Using the draft budget for fiscal year 2016-17, the projected reserve levels have been updated. Staff is still developing the appropriations reserve estimate and expects to complete it this week. For now, the 2% figure is still being used. The trends seen in the earlier drafts have not changed substantially. The ability to fully fund reserves decreases over time under the current five-year operating budget projection that includes the use of deficit spending each year.

Change in Unrestricted Net Position
(in thousand of dollars)

	FY16/17	FY17/18	FY18/19	FY19/20	FY 20/21
BOY Unrestricted Net Position	\$ 10,084	\$ 9,453	\$ 8,174	\$ 6,545	\$ 4,940
Budget Surplus/(Deficit)	(482)	(1,126)	(1,471)	(1,442)	(1,409)
Post-Retirement Health (OPEB)	(149)	(153)	(158)	(163)	(168)
EOY Unrestricted Net Position	<u>\$ 9,453</u>	<u>\$ 8,174</u>	<u>\$ 6,545</u>	<u>\$ 4,940</u>	<u>\$ 3,363</u>

Targeted Reserve Balances
(in thousand of dollars)

RESERVE FUNDS	FY16/17	FY17/18	FY18/19	FY19/20	FY 20/21
Working Capital	\$ 4,982	\$ 5,082	\$ 5,189	\$ 5,698	\$ 6,228
Emergency	2,567	2,648	2,728	2,811	2,897
Appropriated	513	530	546	562	579
Capital	0	0	0	0	0
Reserves Target Balance	<u>\$ 8,062</u>	<u>\$ 8,260</u>	<u>\$ 8,463</u>	<u>\$ 9,071</u>	<u>\$ 9,704</u>

Projected Reserve Balances
(in thousand of dollars)

RESERVE FUNDS	FY16/17	FY17/18	FY18/19	FY19/20	FY 20/21
Working Capital	\$ 4,982	\$ 5,082	\$ 5,189	\$ 4,940	\$ 3,363
Emergency	2,567	2,648	1,356	0	0
Appropriated	513	444	0	0	0
Capital	0	0	0	0	0
Reserves Projected Balance	<u>\$ 8,062</u>	<u>\$ 8,174</u>	<u>\$ 6,545</u>	<u>\$ 4,940</u>	<u>\$ 3,363</u>
Targeted Reserves Shortfall	<u>\$0</u>	<u>\$86</u>	<u>\$1,918</u>	<u>\$4,131</u>	<u>\$6,341</u>

Note that the targeted capital reserve levels are listed as zero. The reason is that the District anticipates the receipt of sufficient capital funds to cover the cost of capital projects over the next five years. However, an important caveat is that significant desired bus purchases that do not currently have a known funding source have not been included. The cost of these acquisitions exceeds \$25 million. This topic will be discussed during the Committee meeting.

Attachments: *Cash Reserves Policy – 3rd draft dated March 29, 2016*
Cash Reserves Policy – 3rd draft dated March 29, 2016 (with tracked changes)

Santa Barbara Metropolitan Transit District Cash Reserves Policy

March 29, 2016

I. Purpose

Cash reserves are advisable for prudent financial management of the District. A reserve policy will 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/or significant risk-related outlays. Additionally, the funding of reserves provides for the replacement or addition of District facilities, rolling stock, and equipment.

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

II. Reserve Funds

The following cash reserve funds shall be established by the District, which funds shall be prioritized and 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 operations. Working capital is required for, among other things:

- Regular short-term cash flow requirements to accommodate operating costs.
- Delayed receipt of federal operating assistance.
- Upfront outlays for capital acquisitions that are funded on a reimbursement basis.

Target – The amount of the Working Capital Reserve shall be equal to the FTA 5307 formula operating funds budgeted for the fiscal year which is considered a sufficient amount to meet all working capital needs.

Usage – Use of the Working Capital Reserve shall be at the discretion of the General Manager or his or her designee to meet cash flow needs as they arise.

B. Appropriated Reserve

Basis – An appropriated reserve shall be used as a contingency fund for unanticipated events, or high-priority operating or capital needs, including minor emergencies, that may arise during the fiscal year. Examples include economic downturns affecting revenue, volatile energy costs, storm-related damage, and substantial self-insurance outlays.

Target – The amount of the Appropriated Reserve shall be determined using a methodology that takes into account the historical and reasonably potential fluctuation of key operating budget elements. The Appropriated Reserve shall be calculated as part of the annual budget process and shall not exceed 5% of the approved operating budget.

Usage – Use of the Appropriated Reserve shall require approval of the Board of Directors unless the General Manager determines circumstances require the immediate commitment of resources to preserve life or property, or to protect public health, welfare, or safety.

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 extreme circumstances.

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

Usage – Use of the Emergency Reserve shall require approval by the Board of Directors unless the General Manager determines circumstances require the immediate commitment of resources to preserve life or property, or to protect public health, welfare, or safety.

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 amount of the Capital Reserve shall be based upon the unfunded portion¹ of the five-year capital plan in the following manner:

- 100% of the capital budget for the current fiscal year (year one); plus,
- 80% of the capital budget for the subsequent fiscal year (year two); plus,
- 60% of the capital budget for year three; plus,
- 40% of the capital budget for year four; plus,
- 20% of the capital budget for year five.

¹ The unfunded portion of the capital budget is defined as the difference between the capital budget and the capital funding that is or is reasonably expected to be secured for that year.

Additional capital sinking funds may be established by the Board of Directors as needed for specific projects that require a substantial capital outlay (e.g., a large bus purchase or new facility).

Usage – Use of the capital reserve shall require approval of the Board of Directors. Such authority is also granted to the General Manager when circumstances require the immediate commitment of resources provided that such use is consistent with the priorities established by the Board of Directors as part of the annual budget process.

III. Funding

The funding of reserves shall be from the District's Unrestricted Net Position. In the event that a reserve fund balance falls below the target level, to the extent feasible, it shall be replenished to the target level by shifting funds from the lowest priority reserve fund with a fund balance. Increasingly higher priority reserve funds shall also be used for such replenishment, as necessary.

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 targets established in this policy, staff shall develop a plan for moving towards the authorized cash reserve levels.

The reserves established under this Cash Reserves Policy shall be reported in the District's financial statements and required supplementary information in accordance with generally accepted accounting principles including, by not limited to, those established by the Government Accounting Standards Board.

V. Modifications

This Cash Reserves Policy may be amended at any time by approval of the Board of Directors.

Santa Barbara Metropolitan Transit District Cash Reserves Policy

February 9 ~~March 29~~, 2016

I. Purpose

Cash reserves are advisable for prudent financial management of the District. A reserve policy will 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/or significant risk-related outlays. Additionally, the funding of reserves provides for the replacement or addition of District facilities, rolling stock, and equipment.

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

II. Reserve Funds

The following cash reserve funds shall be established by the District, which funds shall be prioritized and 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 operations. Working capital is required for, among other things:

- Regular short-term cash flow requirements to accommodate operating costs.
- Delayed receipt of federal operating assistance.
- Upfront outlays for capital acquisitions that are funded on a reimbursement basis.

Target – The amount of the Working Capital Reserve shall be equal to the FTA 5307 formula operating funds budgeted for the fiscal year which is considered a sufficient amount to meet all working capital needs.

Usage – Use of the Working Capital Reserve shall be at the discretion of the General Manager or his or her designee to meet cash flow needs as they arise.

B. Appropriated Reserve

Basis – An appropriated reserve shall be used as a contingency fund for unanticipated events, or high-priority operating or capital needs, including minor emergencies, that may arise during the fiscal year. Examples include economic downturns affecting revenue, volatile energy costs, storm-related damage, and substantial self-insurance outlays.

Target – The amount of the Appropriated Reserve shall be determined using a methodology that takes into account the historical and reasonably potential fluctuation of key operating budget elements. The Appropriated Reserve shall be calculated as part of the annual budget process and shall not exceed 2%5% of the approved operating budget.

Usage – Use of the Appropriated Reserve shall require approval of the Board of Directors. ~~Such authority is granted to the General Manager when~~ unless the General Manager determines circumstances require the immediate commitment of resources to preserve life or property, or to protect public health, welfare, or safety.

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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 amount of the Capital Reserve shall be based upon the unfunded portion¹ of the five-year capital plan in the following manner:

- 100% of the capital budget for the current fiscal year (year one); plus,
- 80% of the capital budget for the subsequent fiscal year (year two); plus,
- 60% of the capital budget for year three; plus,
- 40% of the capital budget for year four; plus,
- 20% of the capital budget for year five.

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The reserves established under this Cash Reserves Policy shall be reported in the District's financial statements and required supplementary information in accordance with generally accepted accounting principles including, by not limited to, those established by the Government Accounting Standards Board.

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DRAFT