

THIS STAFF REPORT COVERS CALENDAR ITEM NO. : 7.3
FOR THE MEETING OF: September 9, 2010

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION: Approval of updated Board Policy No. 012: Reserve Policy.

SUMMARY:

The TJPA Board approved Board Policy No. 012: Reserve Policy on October 27, 2006. The policy created three reserves: a Fiscal Reserve to be used for working capital, an Emergency Reserve to be used in case of extraordinary events, and a Contingency Reserve to pay for expenditures that were not reimbursable. At that time, the TJPA did not conduct Operating and Maintenance (O&M) activities.

The attached Board Policy No. 012 reflects that TJPA now requires an O&M reserve for the Temporary Terminal. Further, an O&M reserve will be necessary for the permanent Transbay Transit Center. The revised policy allows for the use of the O&M reserves as working capital under certain conditions.

Substantive changes to the updated Reserve Policy, which has been reviewed and approved by the TJPA Chief Financial Officer, include:

- Establishing an O&M reserve
- Eliminating the Contingency Reserve (as Contingency, set within FTA guidelines, appears in the Baseline Budget and does not require a separate reserve)
- Increasing the Fiscal Reserve from 8% to 15% of the annual budget
- Updating the revenues that can be used to fund the reserves
- Clarifying the eligible uses for the reserves

TJPA carries the following contingencies as items in the Baseline Budget: Design (calculated on the estimated breakdown of work following FTA guidelines), Construction (calculated at 10% of the total cost of construction), Programwide (calculated at the FTA-recommended 8% of the total cost of construction), and Risk (calculated based on probability of identified risks). The Contingency Reserve in the Reserve Policy was never intended to be used for the purpose of funding these contingencies. Its original purpose was to fund expenditures that were not reimbursable by a capital grant. However, TJPA prepares a fiscal year budget and budget amendments as necessary to cover all expenditures, whether they are funded through capital revenues or unrestricted revenues. As such, the Contingency Reserve has never been used and is not required.

The Reserve Policy will now include a Fiscal Reserve, Emergency Reserve, and O&M Reserve. Additional updates to the policy are administrative in nature, including some reorganization of the policy to improve its clarity.

ENCLOSURES:

1. Board Policy No. 012: Reserve Policy – clean and redline versions
2. Resolution approving updated Board Policy No. 012

**TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS**

Resolution No. _____

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (Agreement), the TJPA has the authority to make and enter into contracts, to acquire real and personal property and to exercise all powers necessary and proper to carry out the provisions of the Agreement; and

WHEREAS, The TJPA adopted a Reserve Policy in conformance with federal, state and other legal requirements on October 27, 2006; and

WHEREAS, The TJPA wishes to revise the Reserve Policy to include an Operating and Maintenance Reserve; eliminate Contingency Reserve as various contingencies for design, construction, programwide and risk are included in the TJPA Baseline Budget; and to make other clarifying changes; now, therefore be it

RESOLVED, That the TJPA Board adopts the revised Reserve Policy identified as Board Policy No. 012.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of September 9, 2010.

Secretary, Transbay Joint Powers Authority

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012

Category: Financial Matters

RESERVE POLICY

I. Introduction

The purpose of this policy is to set forth appropriate levels of financial reserves to mitigate current and future financial risks, such as revenue shortfalls or unanticipated expenses and short term cash shortages, and to set forth the purposes and procedures for and by which the reserve funds may be used for the payment of services or goods.

The Transbay Joint Powers Authority (TJPA) will create three reserves as follows:

- 1. Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
- 2. Fiscal Reserve** is to be used as working capital.
- ~~**3. Contingency Reserve** will be appropriated as part of the fiscal year budgetary process and is to be used to reimburse vendors for services and goods that do not qualify as reimbursable expenses. This reserve is a funded reserve and should not be confused with the contingency included in the project budget which spans across fiscal years. The contingency included in the project budget is an estimated amount for the project and is not funded unless actual unforeseen expenses occur.~~
3. Operating and Maintenance Reserve is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.

All reserves will be funded from ~~unrestricted~~ eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, ~~and~~ (3) lease income, and (4) other funds designated for reserve purposes. ~~Unrestricted revenue is defined as revenue generated by the activities of the TJPA that are not earmarked or encumbered for payment of services or goods.~~

II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial ~~credit ability~~ health to help achieve the highest credit and bond ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

III. General Standards & Delegation of Authority

~~There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary “borrowing” of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to eight percent (8%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 30 days of working capital.~~

A. Emergency Reserve: The Emergency Reserve may be used in an emergency situation with the Board of Directors’ approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars (\$500,000).

The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors’ cannot convene in time to respond to an emergency situation, two of the four following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board, 2) Vice Chair of the Board, 3) Executive Director, 4) Chief Financial Officer.

B. Fiscal Reserve: There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary “borrowing” of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to ~~eight~~ fifteen percent (~~8~~15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above ~~8~~15%. The TJPA Chief Financial Officer ~~Finance Manager~~ and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

C. Operating and Maintenance Reserve: The Operating and Maintenance Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable

expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
- Authorized under the annual Operating and Maintenance budget approved by the Board; or
- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill contractual or other obligations. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

~~Also, agencies incur unanticipated expenses and owe vendors payments that are not allowable under grant or revenue sharing agreements. The Contingency Reserve will be available for these types of transactions. The Contingency Reserve will be appropriated during the budget process each fiscal year and must be approved by the Board of Directors. The amount in the Contingency Reserve will fluctuate each fiscal year.~~

~~Unrestricted revenues shall first fund the Emergency Reserve, and then the Contingency Reserve and any remaining balance shall be added to the Fiscal Reserve until such time as the Fiscal Reserve equals 8% of budgeted expenditures. Unrestricted revenues received above the 8% goal may be used as authorized by the Board of Directors or as incorporated in the adopted budget.~~

~~In no case shall the implementation of this policy be inconsistent with the TJPA's procurement, budget, or internal accounting control policies.~~

IV.—Delegation of Authority

~~The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 8%. The TJPA Finance Manager and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes as described in Section III above.~~

~~The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors' cannot convene in time to respond to an emergency situation, two of the three following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board 2) Executive Director 3) Controller.~~

~~Consistent with Board Policy No. 3 "Budget Policy" Section III C. Mid Year Reallocations, the Executive Director is authorized to reallocate 10% of the Contingency Reserve to any expense category. The Board of Directors must approve release of Contingency Reserves above 10%.~~

IV. Internal Controls

In no case shall the implementation of this policy be inconsistent with the TJPA's procurement, budget, or internal accounting control policies. The TJPA Finance ~~Manager~~ Coordinator shall assure that internal accounting controls are followed as required by Board Policy No. 007 "Internal Accounting Control Policy."

V. Reporting Requirements

The financial records of the TJPA will segregate the Fiscal Reserve, Emergency Reserve and ~~Contingency~~ O&M Reserve by recording activity in a separate account. The TJPA shall incorporate the budgeted and actual Reserve amounts into the quarterly financial reports submitted to the TJPA Board of Directors. The reports will include additions or approved releases of the Reserves and the period ending balances.

VI. Reserve Policy Review

TJPA's Reserve Policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually by TJPA Staff ~~Members~~ and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.

Approved by:

Fred Clarke
TJPA Chief Financial Officer

Date

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012

Category: Financial Matters

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1. **Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
2. **Fiscal Reserve** is to be used as working capital.
3. **Operating and Maintenance Reserve** is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.

All reserves will be funded from eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, (3) lease income, and (4) other funds designated for reserve purposes.

II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial health to help achieve the highest credit and bond ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

III. General Standards & Delegation of Authority

- A. **Emergency Reserve:** The Emergency Reserve may be used in an emergency situation with the Board of Directors' approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars (\$500,000).

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- B. Fiscal Reserve:** There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

- C. Operating and Maintenance Reserve:** The Operating and Maintenance Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

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- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
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IV. Internal Controls

In no case shall the implementation of this policy be inconsistent with the TJPA’s procurement, budget, or internal accounting control policies. The TJPA Finance Coordinator shall assure that internal accounting controls are followed as required by Board Policy No. 007, “Internal Accounting Control Policy”.

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Fred Clarke
TJPA Chief Financial Officer

Date