

**STAFF REPORT FOR CALENDAR ITEM NO.: 8.7
FOR THE MEETING OF: June 13, 2024**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of updated versions of Board Policy No. 003, Budget Policy, and Board Policy No. 012, Reserve Policy.

SUMMARY:

Amendment to Board Policy No. 003: Budget Policy

The Board approved Board Policy No. 003: Budget Policy on June 23, 2004, and approved amendments to the Budget Policy on November 9, 2017. The policy guides the TJPA's annual budget process and establishes an annual budget schedule. It also establishes parameters for mid-year budget transfers and the submission of supplemental budget requests to the Board of Directors. Since the last amendment, there have been changes in TJPA staffing, planning, and operations, requiring changes to this policy to address the needs of the TJPA financial operations and budgeting practices.

The attached Board Policy No. 003 reflects updates to the budget preparation and annual budget schedule to be consistent with the current practices of submission of annual budgets to the TJPA Board by the Chief Financial Officer and provide for possible submission of a multi-year capital budget. Under the current budget process, and as updated in the policy, the Chief Financial Officer prepares proposed budgets for submission to the Board. The current budget development schedule includes submission of the preliminary operating budget to the Board in January, briefing the Board on the budget outlook in April, submission of and public hearing on draft budgets in May, and submission of the final budget for adoption by the Board in June.

The attached Board Policy No. 003 also includes changes to the mid-year (revised to current year) budget adjustments to increase efficiency by providing authority to the Chief Financial Officer for necessary realignment of the budgeted appropriation up to 10% of the adopted budget and increasing the threshold of that adjustment for the Executive Director up to 20% of the adopted budget, provided that the realignments do not increase the overall budget.

The attached Board Policy No. 003 further includes a section on the treatment of budget carryforwards for capital projects. As capital project delivery does not always follow fiscal year timeframes, the revised policy allows the Chief Financial Officer to carry forward the unspent and unliquidated appropriation from one fiscal year to the next without an amendment to the approved budget or Board approval.

Amendment to Board Policy No. 012: Reserve Policy

The TJPA Board approved Board Policy No. 012: Reserve Policy on October 27, 2006, and approved amendments to the Reserve Policy on September 9, 2010, November 9, 2017, March

12, 2020, and November 10, 2022. The current policy includes four reserves: an Emergency Reserve to be used in case of extraordinary events, a Fiscal Reserve to be used for working capital, an Operating and Maintenance (O&M) reserve to be used in the event of unanticipated revenue shortfalls and unavoidable expenditure needs, and a Capital Replacement Reserve to pay for necessary periodic major maintenance and lifecycle expenditures.

The Reserve Policy sets the Emergency Reserve at \$500,000, the Fiscal Reserve at 15% of the annual budgeted expenses, not including right-of-way costs, the Operating and Maintenance Reserve at 25% of the annual budgeted operating and maintenance expenses, and the Capital Replacement Reserve at a level sufficient to fund seven years of anticipated periodic major maintenance and lifecycle costs.

With the growth of the TJPA budget, changes in the structure of fund sources, and mandatory provisions associated with each fund source, maintaining a reserve of 15% of the budgeted expenses in addition to the O&M Reserve and Capital Maintenance and Replacement Reserve is not viable. In addition, it is unclear whether the intention of the policy is to hold an additional 15% reserve or use it as working capital. The proposed amendment to the Reserve Policy establishes a goal to maintain the Fiscal Reserve in an amount equal to 60 days of working capital in TJPA's capital and operating funds to meet short-term financial obligations and cash flow needs. In addition, the new policy inserts the authorities and responsibilities of the Chief Financial Officer in maintaining Fiscal and O&M reserves.

With the aging of capital assets in the Transit Center, the growing need for maintenance, repair, and replacement of the capital assets, and financial constraints, maintaining a feasible level of Capital Replacement Reserve that provides for periodic major maintenance and lifecycle costs of the TJPA's assets is necessary. TJPA staff plans to develop and present to the board a five-year fiscally constrained Capital Improvement Plan (CIP) that efficiently allocates resources to the highest priority needs and includes the list of projects to be funded with the Capital Replacement Reserve based on their evaluation. The proposed amendment to the Reserve Policy changes the Capital Replacement Reserve to an amount equal to five years of anticipated major maintenance that matches the proposed and adopted CIP. This adjustment allows for setting more achievable goals within a reasonable timeframe, fostering greater accountability and adaptability in managing capital assets while maintaining prudent stewardship of resources.

ENCLOSURES:

1. Resolution
2. Board Policy No. 003: Budget Policy – clean and redline versions
3. Board Policy No. 012: Reserve Policy – clean and redline versions

**TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS**

Resolution No. _____

WHEREAS, The Transbay Joint Powers Authority 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 (the "Agreement"), the TJPA has the authority to adopt annual or multi-year budgets; and

WHEREAS, On June 23, 2004, the TJPA adopted a Budget Policy that, among other things, sets forth the requirements for the annual budget schedule, mid-year budget reallocations, supplemental budget requests, and multi-year financial planning; and

WHEREAS, On November 09, 2017, the TJPA amended the Budget Policy that, among other things, included an Operating Budget Projection in accordance with the AC Transit Lease and Use Agreement; and

WHEREAS, The TJPA wishes to revise the Budget Policy to update the budget preparation and annual budget schedule consistent with the current practices of submitting annual budgets to the TJPA Board by the Chief Financial Officer; change the mid-year budget adjustments to provide authority to the Chief Financial Officer for necessary realignment of the budgeted appropriation up to 10% of the adopted budget and increase the threshold of that adjustment for the Executive Director up to 20% of the adopted budget; and include a section to allow the Chief Financial Officer to carry forward the unspent and unliquidated appropriations from one fiscal year to the next without an amendment to the approved budget or Board approval; and

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

WHEREAS, The TJPA has periodically amended the Reserve Policy, including the most recent amendments on November 10, 2022, that, among other things, established a goal to maintain a balance in the Capital Replacement Reserve sufficient to fund anticipated periodic major maintenance and lifecycle costs for the next seven years, and provides guidance for the use of and contributions to the reserve, all in coordination with the proposed new Board Policy No. 021: Capital Improvement Plan (CIP) Policy; and

WHEREAS, The TJPA wishes to revise the Reserve Policy to include a goal to maintain a balance in the Fiscal Reserve equal to 60 days of working capital to ensure short-term obligations and cash flow needs are met; insert the authorities and responsibilities of the Chief Financial Officer in maintaining Fiscal and O&M reserves; and maintain Capital Replacement Reserve sufficient to fund five years of anticipated periodic major maintenance and lifecycle costs; now, therefore, be it

RESOLVED, That the TJPA Board adopts the revised Budget Policy identified as Board Policy No. 003; and, be it

FURTHER 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 June 13, 2024.

Secretary, Transbay Joint Powers Authority

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 003

Category: Financial Matters

BUDGET POLICY

The Transbay Joint Powers Authority (the "TJPA" or "Authority") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. The Agreement establishes the fiscal year of the Authority as beginning on July 1 and ending on June 30, and provides the TJPA Board of Directors ("Board") with the authority to adopt, at its sole discretion, an annual or multi-year budget before the beginning of each fiscal year.

The Joint Powers Agreement designates the City and County of San Francisco ("City") as Administrator, charged with executing the provisions of the Joint Powers Agreement and implementing programs undertaken by the Authority. With respect to the manner of exercising its powers, the Authority is subject to the policies and procedures of the City.

The policies and procedures governing procurements of the Authority derive from the laws of the City, as limited by applicable provisions of state and federal law. The Authority intends to be guided by the budgetary policies and procedures set forth in Title IX of the City Charter (Budget Process), and relevant provisions of Chapter 3 of the San Francisco Administrative Code (Budget Process Ordinances), to the extent they are applicable.

By accepting federal funding, the Authority is obligated to comply with various federal regulations regarding financial management. In the event of any conflict between federal law and the laws of the City or this Budget Policy, federal law shall supersede the City law and this Budget Policy.

I. City Charter and Administrative Code Budget Guidance

With respect to budgetary procedures, Title IX of the City Charter requires:

- The development of a schedule and procedures for the orderly preparation and submission of an annual budget;
- A description of the form of the annual proposed budget consistent with the financial records required by Section 3.105 of the Charter (outlining the duties of the City Controller); and

- A procedure to include public participation in the budgetary process, including public hearings.

The TJPA Budget Policy has been developed consistent with these City Charter budget requirements.

In addition, the TJPA recognizes the importance of clearly articulating the agency's vision, its mission, and its long-term goals for stakeholders and members of the public. The Authority also understands the value of strategic planning in creating a framework for day-to-day decision-making. The development of the TJPA's annual budget shall promote the Authority's mission, vision, and goals and allocate resources to implement them, within the constraint of available resources.

II. TJPA Budget Procedures

A. Budget Preparation

The Chief Financial Officer shall prepare a proposed Annual Operating Budget, an Annual or Multi-Year Capital Budget, and if TJPA has outstanding debt obligations, an Annual Debt Service Budget for submission to the Board. The budgets shall be:

1. Presented in appropriation line-item form;
2. Balanced with proposed revenues equal (or exceeding) to proposed expenditures; and
3. Sufficiently detailed to provide Board members and stakeholders with a clear understanding of the Authority's near-term financial plan.

For reference, the proposed budgets shall include a comparison to the prior year's approved budgets.

B. Annual Budget Schedule

To the extent possible, the TJPA shall adhere to the following schedule for the preparation of its annual budgets:

1. Submission of the Operating Budget Projection for the upcoming fiscal year to the Board or Finance Committee (if established) – January preceding the beginning of the upcoming fiscal year.
2. Briefing the Board or its Finance Committee (if established) on the operating and capital budget outlook for the upcoming fiscal year – April preceding the beginning of the upcoming fiscal year.
3. Submission of and public hearing on proposed annual and/or multi-year budgets to the Board– May preceding the beginning of the upcoming fiscal year.

4. Adoption of annual and/or multi-year budgets by the Board for upcoming fiscal year – June preceding the beginning of the upcoming fiscal year.
5. In the event that an annual operating and/or capital budget is not adopted by July 1, the first day of the new fiscal year, the Board shall be required to adopt a monthly interim budget equal to one-twelfth of the prior year’s annual budget. The adoption of the monthly interim budget should occur prior to July 1st, and shall continue on a monthly basis until a new annual budget has been approved.
6. Following the adoption of the annual budget, the Chief Financial Officer shall provide the Board of Directors with reports summarizing the status of budget versus actual expenditures for that fiscal year on a quarterly basis.

C. Current Year Adjustments

1. Current Year Reallocations

Once the operating and capital budgets have been adopted, the Chief Financial Officer and Executive Director may reallocate budget within and among appropriation categories without further Board action, so long as the total amount of spending does not vary from the total amount of the approved annual budget and the aggregated amount reallocated during the fiscal year does not exceed the following authorization levels:

- Chief Financial Officer: 10% of the current year budget
- Executive Director: 20% of the current year budget

Adjustments greater than 20% require approval from the Board of its Finance Committee (if established). The percentage thresholds are reset following any Board approval for budget adjustments and reallocations.

The Chief Financial Officer may amend the budgeted revenue and resources based on availability and according to their most advantageous uses without Board approval, so long as the total amount of resources does not vary from the approved annual budget.

2. Current Year Budget Reductions

Due to the nature of the Transbay Program’s numerous funding sources, contingency planning may play a significant role in management of the Authority’s budget. During the course of a fiscal year, if the Authority’s staff determines that annual revenues shall not meet or exceed budgeted expenditures, then the Chief Financial Officer and Executive Director shall be prepared to implement measures to reduce expenditures to the level of expected revenues. The Chief Financial Officer or Executive Director shall report to the Board or its Finance Committee (if established) regarding the measures taken, and the impact on the TJPA’s program.

3. Current Year Supplemental Budget Requests

During the course of the fiscal year, the Chief Financial Officer or Executive Director shall return to the Board with a proposed balanced supplemental budget in the event that total revenues or expenditures are projected to exceed the original annual budget. All supplemental budget requests shall be reviewed by the Finance Committee (if established) prior to their submittal to the Board.

The Chief Financial Officer may increase the annual Debt Service Budget revenue and expenditure without Board approval, so long as the actual resources received and principal and interest paid exceed the budgeted appropriation and are in compliance with the Board-approved terms of the bond or loan.

D. Budget Carryforward

Due to the nature of multi-year capital project delivery, at times, the appropriations included in the annual capital budget are not fully expended within the fiscal year. The Chief Financial Officer can carry forward unspent or unliquidated appropriations from one fiscal to the next, provided that funds and contract authorizations are still available. Spending of carryforwards is not considered a new appropriation that would require an amendment to the budget or Board approval. Carryforwards are exempt from the thresholds set in item II.C.

E. Multi-Year Financial Plans

The TJPA's role is to execute a large-scale, multi-year construction program, which will require significant levels of capital funding from multiple sources over several years. Upon completion of the construction program, the TJPA transitions into the role of operator of a major multi-modal transportation facility. In both roles, long-term financial planning will play a significant part in the Authority's success.

In addition to the annual budget process described in this Policy, the Authority shall maintain a long-term financial plan, describing how the Authority intends to fund the construction of the Transbay Program over the life of the Program's construction, and through the term of any loan or debt repayment undertaken in connection with the Program. This long-term financial plan shall be updated periodically, as circumstances change, and shall be presented to the Board.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 003

Category: Financial Matters

BUDGET POLICY

The Transbay Joint Powers Authority (the "TJPA" or "Authority") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. The Agreement establishes the fiscal year of the Authority as beginning on July 1 and ending on June 30, and provides the TJPA Board of Directors ("Board") with the authority to adopt, at its sole discretion, an annual or multi-year budget before the beginning of each fiscal year.

The Joint Powers Agreement designates the City and County of San Francisco ("City") as Administrator, charged with executing the provisions of the Joint Powers Agreement and implementing programs undertaken by the Authority. With respect to the manner of exercising its powers, the Authority is subject to the policies and procedures of the City.

The policies and procedures governing procurements of the Authority derive from the laws of the City, as limited by applicable provisions of state and federal law. The Authority intends to be guided by the budgetary policies and procedures set forth in Title IX of the City Charter (Budget Process), and relevant provisions of Chapter 3 of the San Francisco Administrative Code (Budget Process Ordinances), to the extent they are applicable.

By accepting federal funding, the Authority is obligated to comply with various federal regulations regarding financial management. In the event of any conflict between federal law and the laws of the City or this Budget Policy, federal law shall supersede the City law and this Budget Policy.

I. City Charter and Administrative Code Budget Guidance

With respect to budgetary procedures, Title IX of the City Charter requires:

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- A procedure to include public participation in the budgetary process, including public hearings.

The TJPA Budget Policy has been developed consistent with these City Charter budget requirements.

In addition, the TJPA recognizes the importance of clearly articulating the agency's vision, its mission, and its long-term goals for stakeholders and members of the public. The Authority also understands the value of strategic planning in creating a framework for day-to-day decision-making. The development of the TJPA's annual budget shall promote the Authority's mission, vision, and goals and allocate resources to implement them, within the constraint of available resources.

II. TJPA Budget Procedures

A. Budget Preparation

The ~~Executive Director or his or her designee~~ Chief Financial Officer shall prepare a proposed Annual Operating Budget, an Annual or Multi-Year Capital Budget, and if TJPA has outstanding debt obligations, an Annual Debt Service Budget for submission to the ~~TJPA Board of Directors~~. The ~~annual~~ budgets shall be:

1. Presented in appropriation line-item form;
2. Balanced with proposed revenues equal (or exceeding) to proposed expenditures; and
3. Sufficiently detailed to provide Board members and stakeholders with a clear understanding of the Authority's ~~near-term~~ near-term financial plan.

For reference, the proposed budgets shall include a comparison to the prior year's approved budgets.

B. Annual Budget Schedule

To the extent possible, the TJPA shall adhere to the following schedule for the preparation of its annual budgets:

1. ~~Briefing to Finance Committee of the Board of Directors (or Board of Directors sitting as committee of the whole) concerning budget outlook for upcoming fiscal year and~~ Submission of the Operating Budget Projection for the upcoming fiscal year to the Board or Finance Committee (if established) – January preceding the beginning of the upcoming fiscal year.
2. ~~Submission of proposed annual budget~~ Briefing to the Board or its Finance Committee (if established) on the operating and capital budget outlook of the Board of Directors for upcoming fiscal year – April preceding the beginning of the upcoming fiscal year.

3. Submission of and public hearing on proposed annual and/or multi-year budgets to the ~~full Board of Directors~~ – May preceding the beginning of the upcoming fiscal year.
4. Adoption of annual and/or multi-year budgets by the ~~TJPA Board of Directors~~ for upcoming fiscal year – June preceding the beginning of the upcoming fiscal year.
5. In the event that an annual operating and/or capital budget is not adopted by July 1, the first day of the new fiscal year, the Board ~~of Directors~~ shall be required to adopt a monthly interim budget equal to one-twelfth of the prior year's annual budget. The adoption of the monthly interim budget should occur prior to July 1st, and shall continue on a monthly basis until a new annual budget has been approved.
6. Following the adoption of ~~an the~~ annual budget, the ~~Executive Director or his or her designee~~ Chief Financial Officer shall provide the Board of Directors with reports summarizing the status of budget versus actual expenditures for that fiscal year on a quarterly basis.

C. Mid-Current Year Adjustments

1. Mid-Current Year Reallocations

Once ~~an annual~~ the operating and capital budgets ~~has have~~ been adopted, the Chief Financial Officer and Executive Director may ~~augment an existing line item appropriation by reallocating~~ reallocate funding budget within and among expenditure appropriation categories ~~(i.e. salaries and benefits, professional and specialized services, administration, other operating)~~ without further Board action, so long as ~~the aggregate amount reallocated during the fiscal year does not exceed 10 percent of the original appropriation for that category, and~~ the total amount of spending does not vary from the total amount of the approved annual budget and the aggregated amount reallocated during the fiscal year does not exceed the following authorization levels:

- Chief Financial Officer: 10% of the current year budget
- Executive Director: 20% of the current year budget

~~Adjustments greater than 20% require approval from the Board of its~~ The Finance Committee (if established). The percentage thresholds are reset following any Board approval for budget adjustments and reallocations. ~~of the Board of Directors may approve a proposed reallocation of greater than 10 percent of the original appropriation for a budget category, without further approval by the Board of Directors.~~

The Chief Financial Officer may amend the budgeted revenue and resources based on availability and according to their most advantageous uses without Board approval, so long as the total amount of resources does not vary from the approved annual budget.

2. Mid-Current Year Budget Reductions

Due to the nature of the Transbay Program's numerous funding sources, contingency planning may play a significant role in management of the Authority's budget. During the course of a fiscal year, if the Authority's staff determines that annual revenues shall not meet or exceed budgeted expenditures, then the Chief Financial Officer and Executive Director shall be prepared to implement measures to reduce expenditures to the level of expected revenues. The Chief Financial Officer or Executive Director shall report to the Board or its Finance Committee (if established) ~~of the Board of Directors~~ regarding the measures taken, and the ~~effect~~ impact on the TJPA's program, ~~and at the discretion of the Finance Committee, to the full TJPA Board.~~

3. Mid-Current Year Supplemental Budget Requests

During the course of the fiscal year, the Chief Financial Officer or Executive Director shall return to the Board ~~of Directors~~ with a proposed balanced supplemental budget in the event that total revenues or expenditures are projected to exceed the original annual budget, ~~or if the Executive Director proposes to reallocate more than 10 percent of the original appropriation for a budget category to another budget category.~~ All supplemental budget requests shall be reviewed by the Finance Committee (if established) ~~of the Board of Directors~~ prior to their submittal to the ~~full TJPA Board.~~ ~~In the event that total revenues are projected to exceed the original annual budget, the proposed supplemental budget shall identify how the additional funds would be utilized in the current fiscal year, or if some or all of the additional funds would be carried forward to a future fiscal year.~~

The Chief Financial Officer may increase the annual Debt Service Budget revenue and expenditure without Board approval, so long as the actual resources received and principal and interest paid exceed the budgeted appropriation and are in compliance with the Board-approved terms of the bond or loan.

D. Budget Carryforward

Due to the nature of multi-year capital project delivery, at times, the appropriations included in the annual capital budget are not fully expended within the fiscal year. The Chief Financial Officer can carry forward unspent or unliquidated appropriations from one fiscal to the next, provided that funds and contract authorizations are still available. Spending of carryforwards is not considered a new appropriation that would require an amendment to the budget or Board approval. Carryforwards are exempt from the thresholds set in item II.C.

DE. Multi-Year Financial Plans

The TJPA's role is to execute a large-scale, multi-year construction program, which will require significant levels of capital funding from multiple sources over several years. Upon completion of the construction program, the TJPA transitions into the role of operator of a major multi-modal transportation facility. In both roles, long-term financial planning will play a significant part in the Authority's success.

In addition to the ~~Annual~~annual ~~Budget~~budget process described in this Policy, the Authority shall maintain a long-term financial plan, describing how the Authority intends to fund the construction of the Transbay Program over the life of the Program's construction, and through the term of any loan or debt repayment undertaken in connection with the Program. This long-term financial plan shall be updated periodically, as circumstances change, and shall be presented to the ~~Finance Committee (if established) of the Board of Directors on a regular basis for review, and to the full Board of Directors at the direction of the Finance Committee.~~

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, short-term cash shortages and to ensure that sufficient funding is available for periodic major maintenance and lifecycle costs, 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 four 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. **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.
4. **Capital Replacement Reserve** is to ensure that sufficient funds are available to pay for all reasonably necessary periodic major maintenance and lifecycle expenditures.

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 and other operating income, (4) net tax increment revenues to the extent that costs are eligible to be funded in compliance with the restrictions contained in the Pledge Agreement and (5) other funds designated by the Chief Financial Officer 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 ratings, and -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). 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. It is the goal of the TJPA to maintain a balance in its capital and operating funds equal to 60 days of working capital to sustain daily operations and ensure that TJPA can meet its short-term financial obligations.

The TJPA Chief Financial Officer may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

- C. **Operating and Maintenance Reserve:** The Operating and Maintenance (O&M) 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. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from year to year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

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 facilities;
- 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 and urgent by the Executive Director, Chief Financial Officer, or by the Board of Directors.

In addition to the expenditures described above, the Chief Financial Officer may authorize the temporary use of funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill the cashflow needs of 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.

D. Capital Replacement Reserve: The Capital Replacement Reserve was initially established as a condition of the TJPA's execution of its 2010 TIFIA Loan and the accompanying Collateral Agency and Account Agreement. The Capital Replacement Reserve is expected to pay for future periodic major maintenance and lifecycle costs. It is the goal of the TJPA to maintain a balance in the Capital Replacement Reserve sufficient to fund anticipated periodic major maintenance and lifecycle costs for the next five years. A Capital Improvement Plan (CIP) will detail the required funding of the Capital Replacement Reserve and scheduled uses of the Capital Replacement Reserve funds to pay for anticipated periodic major maintenance and lifecycle costs. TJPA Board Policy 021 – Capital Improvement Plan Policy provides for the development and approval of the CIP.

Expenditures from the Capital Replacement Reserve will be based on the needs identified in the CIP and approved by the Board of Directors through the annual budget process. Contributions to the Capital Replacement Reserve will be authorized through the annual budget process as well as periodically as recommended by the Chief Financial Officer and authorized by the Executive Director.

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 Chief Financial Officer 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 O&M Reserve, and Capital Replacement 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 and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.

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, short-term cash shortages and to ensure that sufficient funding is available for periodic major maintenance and lifecycle costs, 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 four 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. **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.
4. **Capital Replacement Reserve** is to ensure that sufficient funds are available to pay for all reasonably necessary periodic major maintenance and lifecycle expenditures.

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 and other operating income, (4) net tax increment revenues to the extent that costs are eligible to be funded in compliance with the restrictions contained in the Pledge Agreement and (5) other funds designated by the Chief Financial Officer 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-short~~-term and ~~long-long~~-term financial health to help achieve the highest credit ratings, and ~~to~~-promote ~~long-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). 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. It is the goal of the TJPA to maintain a balance in ~~the Fiscal Reserve~~ its capital and operating funds equal to 60 days of working capital fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital to sustain daily operations and ensure that TJPA can meet its short-term financial obligations.

~~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 (O&M) 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. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from ~~year to year~~ year to year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

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 facilities;
- 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 and urgent by the Executive Director, ~~designee~~Chief Financial Officer, or by the Board of Directors.

In addition to the expenditures described above, the ~~TJPA Chief Financial Officer~~ may authorize the temporary use of funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill the cashflow needs of 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.~~

D. Capital Replacement Reserve: The Capital Replacement Reserve was initially established as a condition of the TJPA’s execution of its 2010 TIFIA Loan and the accompanying Collateral Agency and Account Agreement. The Capital Replacement Reserve is expected to pay for future periodic major maintenance and lifecycle costs. It is the goal of the TJPA to maintain a balance in the Capital Replacement Reserve sufficient to fund anticipated periodic major maintenance and lifecycle costs for the next ~~seven~~five years. A Capital Improvement Plan (CIP) will detail the required funding of the Capital Replacement Reserve and scheduled uses of the Capital Replacement Reserve funds to pay for anticipated periodic major maintenance and lifecycle costs. TJPA Board Policy 021 – Capital Improvement Plan Policy provides for the development and approval of the CIP.

Expenditures from the Capital Replacement Reserve will be based on the needs identified in the CIP and approved by the Board of Directors through the annual budget process. Contributions to the Capital Replacement Reserve will be authorized through the annual budget process as well as periodically as recommended by the Chief Financial Officer and authorized by the Executive Director.

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 Chief Financial Officer 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 O&M Reserve, and Capital Replacement 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 and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.