



Meeting Date: July 27th, 2022

Agenda Item: D. 4

AGENDA SUMMARY REPORT

SUBJECT:

Operating Reserve Policy Review.
Discussion and Possible Revision of MTA Operating Reserve Policy

SUMMARY:

Our Research of California transit agencies show that they generally set Operating Reserves at 20-30% of annual operating expenses, with the majority set at 25%.

Our auditors recommend 25% of annual operating expenses, and per our last three audits that would require:

<u>Fiscal Year</u>	<u>Operating Expenses</u>	<u>25% Reserve</u>
2018-2019	\$6,971,989	\$1,742,997
2019-2020	\$6,726,939	\$1,681,735
2019-2021	\$6,094,696	\$1,523,674

Taking an average annual operating expense reserve of \$1,650,000, this would require accumulating:

<u>Time Period</u>	<u>Annual Amount</u>	<u>Monthly Amount</u>
3 years	\$550,000	\$45,833
5 years	\$330,000	\$27,500
7 years	\$235,714	\$19,643
10 years	\$165,000	\$13,750

Our current Operating Reserve balance is \$120,000.

Our current Capital Reserve balance at MCOG is \$701,179.

MTA holds a Capital Reserve balance of \$544,403, *which includes reimbursement of VW mitigation funds.*

STAFF RECOMMENDATION:

Review and direct staff

ATTACHMENTS

MTA MEMO Agenda Item #9

MTA Resolution 2016-15

MTA Reserve Fund Policy Dated June 30th, 2016

To: MTA Board of Directors
From: Carla A. Meyer, General Manager
Date: June 30, 2016
Subject: MTA Reserve Policy



At the May Board of Directors meeting, discussion of establishing an MTA Reserve Policy was discussed.

As a result, staff contacted CalACT (California Association for Coordinated Transportation) for similar transit systems Reserve Policies. Based on the summation of those policies and MTA's internal procedures and best practices, the draft MTA Reserve Policy is presented.

In the four (4) policies reviewed, (Amador, El Dorado, Sonoma and Lake) the Operating Reserve set aside was consistent at 25% in Amador and El Dorado. Lake County advised that an operating reserve of 25% would be what they would like to maintain. Sonoma reported that while no formal policy amount has been mandated by the Directors, at the current time the operating reserve is at approximately 30% of their of the annual operating budget.

MTA has a long-used outstanding Five-Year Capital Plan. Annually the plan is reviewed and updated based on actual and projected needs and revenue sources. For continuity and practical capital funding, the Capital Fund Policy balance is based on this plan. It provides a "fluid" funding balance established on actual and projected needs.

Recommendation: Review, approve and adopt Resolution 2016-15, MTA Reserve Fund Policy.

**MENDOCINO TRANSIT AUTHORITY
RESOLUTION 2016-15
MTA RESERVE FUND POLICY**

WHEREAS:

1. MTA policies require the call for adoption of annual balanced budgets; and
2. It is prudent fiscal management for public agencies to reserve funds which can be used in the event of financial emergencies;

NOW, THEREFORE, BE IT RESOLVED that the MTA Board of Directors hereby:

1. Reviewed and approved the MTA Reserve Fund Policy; and
2. Direct staff to implement said policy, effective this date.

ADOPTION of this RESOLUTION was MOVED by Director and SECONDED by Director at a regular meeting of the MTA Board of Directors on June 30, 2016 by the following Roll Call vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

James W. Mastin, Chairman

Carla A. Meyer, General Manager



RESERVE FUNDS POLICY

Summary

This Reserve Policy establishes guidelines for reserve funds for Mendocino Transit Authority (MTA), including the target balance, anticipated uses and approvals for the use of reserve funds.

Introduction

The reserve fund policies and practices of MTA are based on prudent financial management. The primary goal of the Reserve Policy is to establish guidelines for reserve funds MTA, including the target balances, applicable funding sources, anticipated uses and approvals for the use of reserve funds.

Objective

Establishing reserve funds (or preparing for the “rainy day”) provides a means for dealing with emergency or high-priority situations which could not otherwise be funded in the near term.

MTA Objectives for reserve funding are:

- a) To provide adequate funds to support legitimate operating expenditures;
- b) To enable Mendocino Transit Authority to sustain operations and capital projects through delays in the receipt of committed funds and to accept reimbursable contracts and grants without jeopardizing ongoing operations;
- c) To promote public confidence in the long-term sustainability of Mendocino Transit Authority by preventing chronic cash flow crises; and
- d) To create an internal line of credit to manage cash flow and maintain financial flexibility.

Establishing a Reserve Fund

All reserve funds shall be established by the Board. Reserve accounts shall be established upon the adoption of a resolution that must specify;

- a) Purpose of the reserve and eligible use(s);
- b) Establishment of eligible uses of funding;
- c) Source/type of the funding;
- d) Minimum funding level, if applicable.

Management of Reserves

Unless otherwise stated, all reserves shall be incorporated into the fiscal year-end financial analysis, staff prepares and presents to MTA Board. All reporting of reserve accounts will satisfy the objective of being self-explanatory and easy to understand.

Applicable Funding Sources

Such funds are identified as follows:

- a) State Transit Assistance (STA)
- b) Local Transportation Funds (LTF)
- c) Miscellaneous income;
- d) Rental Income
- e) Income received from the sell of assets or other miscellaneous items (capital reserve)

Anticipated Uses of Reserve Funds

A reserve fund is intended to be used for one-time non-recurring purposes, unless otherwise approved by the MTA Board. A reserve fund is intended to be used only under unusual financial circumstances. Below are some examples of potential uses for a reserve fund:

- a) Spikes in the cost of fuel or other materials;
- b) Opportunities to advance urgent, high-priority needs;
- c) Unforeseen withdrawal or cutback in a revenue source;
- d) Augment and/or balance the annual budget.

However, none of these circumstances shall be deemed to obligate the Board to approve use of a reserve fund.

Approval for Use of Reserve Fund

Each proposed use of a reserve fund will be subject to Board approval through the budgetary cycle when the final Budget is adopted.

OPERATING RESERVE FUND POLICY

Purpose

The purpose of the Operating Reserve Fund is to establish and maintain a fund that will provide sufficient financial resources to assure timely payment of the operating expenses of MTA as authorized and defined by the Board.

Calculating the Reserve Amount

The recommended amount required for the Operating Reserve Fund is calculated by agency management staff based on actual expenditure history, planned service reductions/expansions plus adjustments for extraordinary expenditures (e.g. one-time expenditures). The targeted minimum amount to be maintained in the reserve fund shall

be a “targeted” minimum account balance of twenty-five percent (25%) of the annually budgeted operating expenditures.

Frequency of Calculation

Annually, after FY closeout and completion of the independent audit, the amount **to** fund the Operating Reserve Fund will be reevaluated by management staff to determine the calculated amount of funds that should be made available to fund the Operating Reserve Fund.

Board Review

Based on this analysis, management staff shall make a recommendation to the Board for review and formal Board approval.

Other Reserve Funds

The initial priority of the Reserve Policy is to build up the Operating Reserve Fund over time to the targeted balance of a targeted minimum account balance of 25% of the annually budgeted operating expenditures. Additional Reserve Funds in the longer term for Capital Replacement and/or specialized larger scale projects requiring funding match are addressed as follows:

CAPITAL PROGRAM RESERVE FUND POLICY

Purpose

A Capital Replacement Program Reserve Fund will be developed to build up funds in anticipation of future capital replacement expenditures.

Objective

The intent is to build up a reserve of funds before potential capital expenditures would be incurred in or after the current fiscal year, which would fund the expenditures either in full or as the local match. The MTA Board would authorize the use of the money in the Capital Reserve Fund during the budgetary process.

Calculating the Reserve Amount

The recommended amount required for the Capital Reserve Fund is calculated by agency management staff based on actual expenditure needs; i.e. capital equipment, vehicle replacement match and adjustments for extraordinary expenditures (e.g. one-time expenditures) The capital reserve fund balance shall be calculated as outlined in the MTA Five-Year Capital Plan, based on actual and projected expenditures and revenue sources.