

SAN JOAQUIN REGIONAL TRANSIT DISTRICT
SPECIAL FINANCE AND AUDIT COMMITTEE MEETING – NOTICE AND AGENDA
1:00 P.M. ON FRIDAY, OCTOBER 7, 2022

The Finance and Audit Committee of the San Joaquin Regional Transit District (RTD) will hold a special meeting at 1:00 P.M. on Friday, October 7, 2022 in the Classroom of RTD’s Downtown Transit Center, 421 East Weber Avenue, Stockton, California. Chair Michael Restuccia will attend the meeting via videoconference at 259 N. Wilma Avenue, Ripon, California 95366. Please visit sjRTD.com for an electronic copy of this agenda.

ACCESSIBLE PUBLIC MEETINGS: RTD is committed to ensuring that all meetings are accessible regardless of an individual’s ability or access method. RTD will make all reasonable accommodations for persons with disabilities to participate in this meeting. Upon request to the Chief Executive Office, RTD will provide agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number, and a brief description of the requested materials and/or preferred alternative format or auxiliary aid or service at least one workday before the meeting. Requests should be sent to RTD by mail at 421 East Weber Avenue, Stockton, CA 95202, by fax at (209) 948-8516, or by e-mail to BoardSupport@sjRTD.com.

For language assistance, interpreter services, please contact (209) 943-1111. Para información en Español, por favor llame al (209) 943-1111.

1. CALL MEETING TO ORDER
2. PLEDGE OF ALLEGIANCE TO THE FLAG
3. ROLL CALL
4. PUBLIC COMMENTS

Each person who addresses the Committee shall not make slanderous or profane remarks to or about any member of the Committee, staff, or general public. Any person who utters loud, threatening, personal or abusive language, who is unduly repetitious or engages in extended discussion of irrelevancies, or who engages in any disorderly conduct which disrupts, disturbs or impedes the orderly conduct of any Committee meeting shall, at the discretion of the presiding officer or a majority of the Committee, be barred from further audience before the Committee during that meeting. All Public Comments shall be limited to no more than THREE MINUTES. In addition, applause, loud noises, or any other outbursts or disruptions from the audience are not allowed during or after a public comment.

5. DISCUSSION ITEM

A. Review Proposed Revisions to RTD's Reserve Fund Policy

6. QUESTIONS AND COMMENTS FROM DIRECTORS AND/OR STAFF

7. ADJOURNMENT

DATE POSTED: OCTOBER 5, 2022

LEAD STAFF: Robert Kyle, CFO

I. DISCUSSION:

The Finance and Audit Committee will review the proposed revisions to San Joaquin Regional Transit District’s (RTD) Reserve Fund Policy for Board consideration and adoption.

II. SUMMARY:

- The CEO proposes revising RTD’s Reserve Fund Policy.
- The new Reserve Fund Policy will ensure RTD’s stronger fiscal stability and place RTD in a position to better respond to unanticipated fiscal challenges and risks.

Reserve Funds	Funding Basis	Current	Proposed Amount
Operations Sustainability Reserve Fund	Minimum (3) three months expenses based on fiscal year's budget .	\$5M	\$13M
Cash Flow Reserve Fund	\$200K per year up to 15% of Expenses. Most current Federal 5307 apportionment.	\$0.6M	\$7.6M
Operating & Capital Reserve Fund	Unrestricted net position balance.	\$36.2M	\$17.7M
Uninsured Risk Reserve Fund	Potential risk considerations.	\$1.5M	\$5M
Total (in millions)		\$43.3M	\$43.3M
Net Increase (Decrease)			\$0

- The proposed Reserve Fund Policy will be funded through reallocation from increase in net position from Fiscal Year 21/22. The net increase in net position was a result of cost savings from low service level due to COVID, staff shortage, and unanticipated increase in State funding.

III. DISCUSSION/BACKGROUND

RTD is committed to its long-term financial health, economic stability, and viability to provide continued services to its customers. A prudent financial planning is essential to achieve this commitment. The key element of prudent financial planning is to ensure that there are sufficient reserves to cover current operating and capital cash flows. Additionally, good fiscal responsibility requires

anticipating the likelihood of, and preparation for, unforeseen disruptions in cash flow and revenue sources.

The purpose of the Reserve Fund Policy which was initially adopted by the Board in August 2018, is to establish formal reserve guidelines and adequate pool of reserve funds. It will also provide guidelines to ensure RTD's long-term economic stability as well as meet generally accepted financial practices.

The following Reserve Fund types will be fully funded from net position:

- a. **Operations Sustainable Reserve Fund** is a restricted fund intended to provide an internal source of funds during financial disruptions to provide continuity of service. The target minimum balance shall equal to three months of the most current fiscal year's budget. Budget for Fiscal Year 22/23 is \$48.7 million; therefore, the new reserve fund is set to \$13 million (an \$8 million increase from 2018 level).
- b. **Cash Flow Reserve Fund** is an unrestricted fund intended to fill the gaps in delays of cash receipts from grants with pre-award authority. The target minimum amount will be based on RTD's most current Federal 5307 Formula grant apportionment because expense reimbursements from this grant is normally received after the fiscal year-end. Proposed amount is based on RTD's Fiscal Year 21/22 5307 apportionment of \$7.6 million (a \$7 million increase from current balance of \$6 thousand).
- c. **Operating and Capital Reserve Fund** is an unrestricted fund intended to provide the required match for grants or necessary expenditures that might not otherwise have a grant-funding source. There is no target minimum amount to be designated for this fund since this fund represents net position balance.
- d. **Uninsured Risk Reserve Fund** is a restricted fund intended to provide uninsured risk exposures. The target minimum amount of \$5 million is based on estimated potential risks.

RTD's Reserve Fund Policy will be reviewed periodically. The Board may amend or revise the Reserve Fund Policy or temporarily waive the provisions of the Policy to allow reserve funds to be used to resolve an emergency funding situation not covered under this Policy.

IV. STRATEGIC PLAN PRIORITIES ALIGNMENT

This report aligns with the Board's Strategic Priority 3.

Strategic Priorities:

1. Employees
2. Customers
3. Financial Health
4. Operations Excellence

- 5. Community Relations
- 6. Innovation

V. FINANCIAL CONSIDERATIONS/IMPACT

This action will reallocate net position to increase reserve fund to \$43.3 million.

VI. CHANGES FROM COMMITTEE

The Finance and Audit Committee will review the revised policy on October 6, 2022.

VII. ALTERNATIVES CONSIDERED

Do nothing is an alternative. This is not recommended as RTD will miss the opportunity to position itself for a better preparation for unforeseen disruptions in cash flow and revenue sources.

VIII. ATTACHMENTS


Attachment A: Draft of Revised Reserve Fund Policy

Attachment B: Reserve Fund Policy, Adopted in August 2018

Prepared by: Robert Kyle, CFO

IX. APPROVALS

Alex Clifford, CEO



ATTACHMENT A



RESERVE FUND POLICY

BOARD APPROVED (Insert Date)

(DRAFT)

**SAN JOAQUIN REGIONAL TRANSIT DISTRICT
RESERVE FUND POLICY**

Table of Contents:		Page
Article 1	Definitions	2
Article II	Purpose and Applicability	2
Article III	Goals	3
Article IV	Operations Sustainability Reserve Fund (Restricted Fund)	3
Article V	Cash Flow Reserve Fund (Unrestricted Fund)	4
Article VI	Operating and Capital Reserve Fund (Unrestricted Fund)	4
Article VII	Uninsured Risk Reserve Fund (Restricted Fund)	5
Article VIII	Funding and Replenishment of Reserves	5
Article IX	Administration of Policy	5
Article X	Changes/Waivers to the Reserve Fund Policy	6

Article I Definitions

- I.1 Reporting of Fund Balances (defined as the excess of assets over liabilities) is guided by complying with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB 54 defines five separate components of fund balance, each of which identifies the extent to which RTD is bound to honor the constraints on the specific purposes for which amounts can be spent.
- I.2 RTD shall mean the San Joaquin Regional Transit District as established and operated under California Public Utilities Code, commencing with Section 50000.
- I.3 BOARD shall mean the Board of Directors of RTD.
- I.4 CEO shall mean the Chief Executive Officer of RTD appointed by the Board.
- I.5 CARRYOVER is the Fiscal Year-end favorable variance of operating revenues over expenses.
- I.7 COMMITTED FUND BALANCES are constrained to specific purposes by a formal action of the Board or CEO, depending on the fund.
- I.8 RESTRICTED FUND BALANCES are limited in their use such as to bridge the gap in delays in grant reimbursements, debt covenants, grantors, contributors, or laws and regulations of other governments and the use of such funds are controlled by Board Policy or approval.
- I.9 STRUCTURAL DEFICIT is a fiscal budget situation in which recurring expenses exceed recurring revenues.
- I.10 UNRESTRICTED FUNDS are funds available for any operating or capital expense use.

Article II Purpose and Applicability

- II.1 RTD is committed to its long-term financial health, economic stability, and viability in order to provide continued services to its customers. Essential to achieving this commitment is prudent financial planning, which includes sufficient reserves to cover operating and capital cash flows and unforeseen disruptions in revenue sources. To that end, a Reserves Fund Policy is being presented to ensure the long-term economic stability of RTD. The establishment of an adequate pool of reserve funds will provide RTD with available funds to be used for specific purposes in accordance with RTD's Procurement Policy and meets generally accepted financial practices.
- II.2 This Reserve Fund Policy will establish formal fiscal reserve guidelines that will ensure strong fiscal management, guide future decisions, maintain fiscal stability, and position RTD to better respond to unanticipated fiscal challenges and risks as they occur, such as an economic downturn or unforeseen financial disruptions.
- II.3 This Policy will provide guidelines to staff in developing the budget and making

financial recommendations to the Board. It will send a positive signal to stakeholders, rating agencies, and regulatory agencies that the Board is committed to RTD's long-term financial health. If RTD chooses to borrow funds in the future, a fiscally sound Reserve Fund Policy will contribute to a positive credit rating which will result in a lower cost of borrowing.

- II.4 Absent a financial recovery plan and Board approval, reserve funds should not be used for recurring expenses.

Article III

Goals

- III.1 RTD will at all times strive to have sufficient funding available to meet its operating and capital obligations in order to provide continued services for the region. The goal of this Policy is to establish an adequate reserve fund through fiscal reserve guiding principles that will guide RTD in making financial decisions and making financial recommendations to the Board.

Article IV

Operations Sustainability Reserve Fund (Restricted Fund)

- IV.1 The Operations Sustainability Reserve Fund is a restricted fund intended to provide an internal source of funds for unanticipated situations such as a sudden increase in expenses, significant one-time unbudgeted expenses, unanticipated loss in funding, economic downturns, or uninsured losses. This reserve fund intends to provide continuity of service (on a short-term basis) regardless of disruptions in cash flow. It is considered working capital to be used to fund non-recurring expenses as needed without borrowing. It is not intended to replace a permanent loss of funds or fill a gap, between revenues and expenses, such as structural deficit.

- IV.2 **Board Policy:**

- IV.2.1 The Operations Sustainability Reserve Fund is defined as a designated fund set aside by action of the Board. It is classified as a restricted and committed fund balance.

- IV.2.2 The target minimum amount designated to the Operations Sustainability Reserve Fund shall equal to threet (3) months of the average operating expenses for the most current fiscal year's budget. Depreciation or other non-cash expenses are not included in the calculation. The target minimum amount will be reviewed annually during the budget process.

- IV.2.3 If used, the amount used will be on a short-term basis and replenished within a reasonably short period of time, not to exceed three fiscal years without Board approval.

- IV.2.4 The Board may consider a short-term reduction in the number of months of operating expenses calculated for the reserve when an extraordinary capital need is identified.

Article V

Cash Flow Reserve Fund (Unrestricted Fund)

V.1 The Cash Flow Reserve Fund is an unrestricted fund intended to provide funds to protect RTD's ability to meet payroll and pay its bills when there are delays in collection of receivables such as reimbursement requests from operating grants or other state, local, and federal subsidies. Since some capital and operating grants are awarded on a reimbursement basis, this will also include payment of grant-funded expenses prior to RTD being reimbursed by the awarding grant agency. The Cash Flow Reserve Fund is intended as a substitute for a line of credit at a financial institution.

V.2 Board Policy:

V.2.1 The Cash Flow Reserve Fund is defined as a designated fund set aside by actions of the Board. It is classified as a committed fund balance.

V.2.2 The target minimum amount designated to the Cash Flow Reserve Fund will be calculated annually based on the coming year's anticipated Federal Transit Administration (FTA) 5307 allocation for RTD. The target minimum amount designated to the Cash Flow Reserve Fund will be reviewed annually during the budget process. Recommended changes to the target minimum amount will be communicated when the Schedule of Reserve Account balances are presented to the Finance and Audit Committee Board and the Board.

V.2.3 The Cash Flow Reserve Fund will be used on a short-term basis to bridge the gap between receipts and payables. The amount used shall be returned to the fund upon receipt of the revenue or the cash reimbursement from the grant.

V.2.4 In difficult financial times, such as prolonged disruption in revenues or grant reimbursements, the fund balance in the Operations Sustainability Reserve Fund can double as the Cash Flow Fund.

Article VI

Operating and Capital Reserve Fund (Unrestricted)

VI.1 Maintaining RTD's system in a state-of-good-repair is paramount to safety, stability, and success of RTD. A system is in a state-of-good-repair when (a) all maintenance is performed at scheduled intervals, (b) all facilities are properly maintained, and (c) all vehicles receive scheduled mid-life overhauls and are replaced when they reach the end of their useful life. The Operating and Capital Reserve Fund is intended to provide the required local match for grants or may be used for capital and operating expenditures that might not otherwise have a grant-funding source. Some uses of this fund will be budgeted in the normal annual budget process and other uses may occur throughout the year, such as unplanned capital expenditures or local match for successful grant awards.

VI.2 Board Policy:

VI.2.1 The Operating and Capital Reserve Fund is defined as a designated fund set aside by the Board for actions of the Board or actions of the CEO that are within the authority of the CEO. It is classified as an unrestricted fund balance.

VI.2.2 There is no target minimum amount to be designated for the Operating and Capital Reserve Fund since its funding source comes from an unanticipated carryover.

VI.2.3 Use of the Operating and Capital Reserve Fund shall be limited to one-time expenditures and shall not be used to support recurring operating expenses.

VI.2.4 The Operating and Capital Reserve Fund can be used to cover a structural deficit during the budget process, subject to a financial recovery plan and Board approval.

Article VII

Uninsured Risk Reserve Fund (Restricted Fund)

VII.1 The Uninsured Risk Reserve Fund is intended to provide funds to meet RTD's self-insurance programs, cover uninsured risk exposure, and risk exposure that exceeds insurance coverage.

VII.2 Board Policy:

VII.2.1 The Uninsured Risk Reserve Fund is defined as a restricted and a designated fund set aside by actions of the Board. It is classified as a committed fund balance.

VII.2.2 The Uninsured Risk Reserve Fund will be calculated annually based on the 5-year rolling average of outstanding claims at fiscal year end and an analysis of other potential risk considerations.

VII.2.3 The Uninsured Risk Reserve Fund balance will be approved by the Board through the annual fiscal budget process.

VII.2.4 The Uninsured Risk Reserve Fund shall not be used to support recurring operating expenditures.

Article VIII

Funding and Replenishing the Reserves

VIII.1 All reserve funds shall be funded through the normal annual budget process.

VIII.2 Reserves will be funded and available in cash or cash equivalent funds and will be maintained with RTD's funds at San Joaquin County pooled funds or other revenue generating account broken out by reserve type.

VIII.3 If the reserve fund cannot be replenished by the next annual fiscal year budget, a repayment plan not to exceed three (3) years will be proposed for Board consideration.

Article IX

Administration of Policy

IX.1 The CEO is responsible for ensuring that the reserve funds are maintained and

- used only as described in this Reserve Fund Policy.
- IX.2 The CEO is authorized to use unrestricted funds for the uses noted in this Policy.
 - IX.3 The use of restricted reserve funds will be reported to the Board in a timely manner and annually through the annual fiscal year budget process, including a special notation reflecting any underfunded categories and a proposed recovery/funding schedule.
 - IX.3 The Finance Department shall record reserve funds in the financial records as Board-Designated reserves, included in the annual fiscal year budget, and broken out by the fund types reflected in this Policy.
 - IX.4 The Finance Department shall maintain Board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the reserve funds.
 - IX.5 The Finance Department shall review this Policy at least every other year, or sooner if warranted by internal or external events or changes. Modifications to the Reserve Fund Policy shall be recommended by the Finance Department to the Finance and Audit Committee, and ultimately the Board.

Article X

Changes/Waivers to the Reserve Fund Policy

- IX.1 With a three-fifths (3/5) majority vote by the Board, the Board may amend or revise the Reserve Fund Policy or temporarily waive the provisions of the Policy to allow reserve funds to be used to resolve an emergency funding situation not covered under this Policy, or to temporarily bridge an operating budget funding gap.



RESERVE FUND POLICY

BOARD APPROVED August 17, 2018

RESERVE FUND POLICY
SAN JOAQUIN REGIONAL TRANSIT DISTRICT

San Joaquin Regional Transit District (RTD) is committed to its long-term financial health, economic stability, and viability in order to provide continued services to its customers. Essential to achieving this commitment is prudent financial planning, which ensures sufficient reserves are available to cover current operating and capital cash flows. Additionally, good fiscal responsibility requires anticipating the likelihood of, and preparation for, unforeseen disruptions in cash flow and revenue sources.

A. Policy Purpose and Goal

The purpose of the Reserve Fund Policy is to establish an adequate pool of reserve funds, which are available for specific purposes with Board approval and in accordance with Procurement Policy.

The Reserve Fund Policy will establish guidelines that promote strong fiscal management, guide future agency decisions, maintain fiscal stability, and position RTD to better respond to unanticipated fiscal challenges and risks as they occur, such as economic downturn and unforeseen disruptions in cash flow and revenue sources.

B. Responsibility/Accountability

1. The Deputy CEO is responsible for assuring that the reserve funds are maintained and used only as described in this Reserve Fund Policy. The use of Reserve Funds will be reported to the Board annually through the annual fiscal year budget process, including a special notation reflecting any underfunded categories and a proposed recovery schedule.
2. The Finance Department shall establish procedures, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Funds.
3. The Finance Department shall review these procedures every other year (at a minimum), or sooner if warranted by internal or external events or changes.

C. Reserve Funds

1. The **Cash Flow Reserve Fund** is intended to provide funds to protect RTD's ability to meet payroll and pay its vendors. Use of this reserve fund is limited to operating and capital expenditures with fully executed but delayed funding, as well as expenses incurred under a pre-award authority.
 - RTD's target minimum amount to be designated as Cash Flow Reserve Fund will be 15% of annual expenses to facilitate cash flow in the event of delayed grant reimbursement. The minimum balance will be reviewed annually through the budget process and will be calculated annually based on review of all current reimbursable grants and a revenue flow analysis.

- The Cash Flow Reserve Fund is classified as unassigned fund balance.
2. The **Operations and Capital Reserve Fund** is intended to provide operations sustainability for unanticipated situations such as sudden increases in expense; significant one-time unbudgeted expenses; unanticipated losses in funding; economic downturns; required matches for grants and capital and operating expenses that do not receive grant funding. Board action is required to allocate any amount from this reserve fund to any expenditure.
 - The Operating and Capital Revenue Fund is a designated fund set aside by action of the Board of Directors, and is classified as a committed fund balance.

D. Funding the Reserves

1. RTD will set aside a minimum of \$200,000 (maximum of \$500,000) annually for each reserve funds starting with the Fiscal Year 2020 budget to fund the reserve accounts until the minimum target of \$5 million dollars in the Operating and Capital Reserve and Cash Flow Reserve of 15% of annual expense are met.
2. Replenishment shall occur by the next annual fiscal year budget.

E. Accounting for Reserve Funds

1. Reserve Funds will be recorded in the financial record as Board-designated reserves, included in the annual fiscal year budget, and broken out by the funds reflected in this policy.
2. Operating and Capital Reserve Funds will be funded and available in cash or cash-equivalent funds.
3. Cash Flow Reserve Funds will be maintained in general cash accounts.
4. Reporting of Fund Balances will be in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Funding Balance Reporting, and Governmental Fund Type Definitions.

F. Changes/Waivers to the Reserve Fund Policy

The reserve policy will be reviewed every other year at a minimum and four out of five votes of the Board may amend or revise the Reserve Fund Policy or temporarily waive the provisions of the policy.

Signed:  Date: August 17, 2018
 Les Fong, Board Chair