

THIS PRINT COVERS CALENDAR ITEM NO. : 14
FOR THE MEETING OF: October 27, 2006

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of Reserve Policy for adoption by the Board of Directors.

SUMMARY:

Staff proposes that the Board of Directors adopt a Reserve Policy that sets 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 fund may be used for the payment of services or goods.

Proposed Reserve Policy

The Reserve Policy proposes the creation of three reserves as follows:

- ❑ Fiscal Reserve- This reserve is to be used as working capital. The reserve balance will be calculated at the beginning of each budget cycle and will be equal to eight percent of the annual budgeted expenses not including Right of Way costs. *For fiscal year ending June 30, 2007 the Fiscal Reserve will be \$2,423,856.*
- ❑ Emergency Reserve- This 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. *The Emergency Reserve will be set at \$500,000.*
- ❑ Contingency Reserve- This 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. *For fiscal year ending June 30, 2007 the Contingency Reserve will be \$1,766,344. This amount may increase or decrease slightly due to variances between estimated and actual fiscal year ended June 30, 2006 fund balance.*

The total of the three reserves equal \$4,690,200 as reported in the fiscal year ending June 30, 2007 adopted budget. Reserve amounts will be reported to the Board of Directors on a quarterly basis as part of the quarterly financial report.

All reserves will be funded from unrestricted revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings and (3) lease income.

ENCLOSURES:

1. Resolution
2. TJPA Reserve Policy

**TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS**

Resolution No. _____

WHEREAS, The Transbay Joint Powers Authority (TJPA) wishes to adopt a Reserve Policy to ensure that TJPA maintains sufficient liquidity to meet cash flow needs and to mitigate current and future financial risks such as revenue shortfalls and unanticipated expenses; and

WHEREAS, The TJPA has and will continue to generate unrestricted revenue including, but not limited to (1) gains on sale of real property, (2) interest and investment earnings and (3) lease income; and

WHEREAS, Unrestricted revenue will be set aside for one of three reserves as follows: (1) *Fiscal Reserve* to be used for working capital, (2) *Emergency Reserve* to be used in extraordinary events, (3) *Contingency Reserve* to be used to reimburse vendors for services and goods that do not qualify as reimbursable expenses and were unforeseen at the time of the budget process; and

WHEREAS, The objectives of the Reserve Policy is to insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial *credit ability* and to promote long term financial stability; now therefore be it

RESOLVED, That the Transbay Joint Powers Authority Board adopts the Reserve Policy identified as Board Policy No. 012, Category: Financial Matters.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of October 27, 2006.

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 fund may be used for the payment of services or goods.

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

1. **Fiscal Reserve** is to be used as working capital.
2. **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
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.

All reserves will be funded from *unrestricted revenue* sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings and (3) lease income. *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 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

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.

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).

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%.

V. Internal Controls

The TJPA Finance Manager shall assure that internal accounting controls are followed as required by Board Policy No. 007 “Internal Accounting Control Policy”.

VI. Reporting Requirements

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

VII. 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. Any modifications to this policy must be approved by resolution of the TJPA Board.

Approved by:

Ed Harrington
TJPA Chief Financial Officer

Date