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 120 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.