

## STAFF REPORT

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**DATE:** December 12, 2022  
**TO:** Sacramento Regional Transit Board of Directors  
**FROM:** Lawrence Chiu, VP, Finance/CFO  
**SUBJ:** REPEALING RESOLUTION 19-07-0085 AND APPROVING THE REVISED COMPREHENSIVE RESERVE POLICY

### RECOMMENDATION

Adopt the Attached Resolution.

### RESULT OF RECOMMENDED ACTION

### FISCAL IMPACT

Approval of the policy does not have a fiscal impact. Future fiscal impacts will depend upon the level of funds committed or decisions made during the annual budget preparation, year-end financial close and audit, or quarterly financial status updates.

### DISCUSSION

On July 22, 2019, the Sacramento Regional Transit District (SacRT) Board of Directors approved the Revised Comprehensive Reserve Policy that helped lead SacRT into a time of improved financial stability, performance, and growth.

Over the past four fiscal years, SacRT has seen the operating reserve and working capital account grow from \$3M to just over \$36.5M, as of June 30, 2021. Preliminary Fiscal Year With SacRT's successful financial turnaround, it is necessary for the District to go back and reassess its policies to ensure they meet the needs of SacRT now and into the future.

Businesses worldwide will have lingering negative impacts as a result of the three-year pandemic crisis, and transit agencies are no exception. Therefore, SacRT staff recommends raising the target operating reserve balance from a 45 day reserve to a 60 day reserve of operating expenses as this is the Government Finance Officers Association best practice recommendation.

### ***Update to Comprehensive Reserve Policy:***

The purpose of the Comprehensive Reserve Policy (Exhibit A) is to formalize a fiscally responsible strategy for establishing, maintaining, and building reserves to address

SacRT's needs. The policy addresses five categories for which reserves are appropriate: operating reserves, working capital reserves self-insurance reserves, capital replacement reserves and grant/project reserves. The proposed amendment to the Comprehensive Reserve Policy is not making changes to the any of the previously established reserve categories; rather it is just a consideration of essential factors such as expense and revenue stability, and the overall vision of SacRT to increase the target operating reserve balance from 45 days to 60 days of operating expenses as a best financial safeguard.

RESOLUTION NO. 2022-12-136

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

December 12, 2022

**REPEALING RESOLUTION 19-07-0085 AND APPROVING THE REVISED  
COMPREHENSIVE RESERVE POLICY**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 19-07-0085 is hereby repealed.

THAT, the Comprehensive Reserve Policy as set forth in Exhibit A is hereby approved.

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STEVE MILLER, Chair

A T T E S T:

HENRY LI, Secretary

By: \_\_\_\_\_  
Tabetha Smith, Assistant Secretary

**COMPREHENSIVE RESERVE POLICY**

**Sacramento Regional Transit District**

**Original Policy Date: 09/27/10**  
**Revised Policy (1st): 11/09/15**  
**Revised Policy (2nd): 07/22/19**  
**Revised Policy (3rd): 12/12/22**

# Sacramento Regional Transit District Comprehensive Reserve Policy

## I. Introduction

The purpose of the Comprehensive Reserve Policy is to formalize a fiscally responsible strategy for establishing, maintaining, and building fiscal reserves to address Sacramento Regional Transit District's (SacRT) needs. The policy addresses four categories of needs for which reserves are appropriate: operating reserve, self-insurance reserves, capital replacement reserves, and grant/project specific reserves. Two of the categories are comprised of estimated costs or liabilities (i.e., self-insurance reserves, and capital reserves), and two categories represent contingent funds for emergencies or unanticipated needs (i.e., operating reserve, and grant/project specific reserves). In addition, to the four reserve categories the Board will have the ability to designate all or a portion of the annual operating surplus to working capital account. SacRT will comply with State and Federal laws, funding regulations and generally accepted accounting principles (GAAP) in establishing, maintaining, building, and using fiscal reserves.

## II. Comprehensive Reserve Policy Objectives

SacRT will establish, maintain, and build fiscal reserves to accomplish the following objectives:

- Maintain adequate funds to meet cash flow needs in the event of emergency or unexpected operating contingences, to prevent an interruption of services.
- Maintain adequate reserves to meet SacRT's self-insurance retention obligations for Workers' Compensation and general liability claims.
- Build reserves to provide the local share of capital costs for replacement and refurbishment of assets at the end of the useful life, allowing timely refurbishment and replacement.
- Maintain reserves required by grant agreements, and/or for large capital projects, to provide contingent coverage for cost overruns.
- Maintain sufficient liquidity to reduce reliance on external short term borrowing sources.

## III. Scope and Authority

Staff will determine the need for reserves in each of the four categories and working capital account, and include those needs in budgets, planning documents, grant applications, and the long-term financial plan, as appropriate. Staff will establish, build, and maintain fiscal reserves consistent with this policy. Staff may manage the reserve balance as its component parts or as a single, consolidated reserve. In either case, staff must account for all sources and uses of funds to demonstrate compliance with grant provisions and use restrictions.

SacRT will contribute to the reserves and or the working capital account annually, and communicate that intent in budgets, plans, and grant applications. The amount of contributions will be that required to maintain balances described in the approach section, below.

Staff may draw down reserves for self-insurance retention claims, and the local share of capital replacement and refurbishment costs, to the extent the costs are planned and funded in the reserve. Should staff require access to contingency funds, specifically the operating reserve, and/or the grant/project specific reserve, staff will prepare an estimated need request and justification for review by the Board of Directors (Board) prior to accessing the funds and within a reasonable time of learning of the need. An estimate of needs is appropriate to ensure timely engagement of the Board; final numbers may not be known until books are closed and the fiscal audit complete. If the difference between the estimated and final need is greater than 10%, staff will prepare an update to the Board explaining the change in need. The Board retains control over the surplus funds, with the exception of working capital cash account, and a 2/3rds majority vote is required to authorize the use of these funds.

Working capital will be identified by the Board annually with the declaration of the final operating surplus. Working capital funds will be placed into the general checking account and available for use on day to day operating costs. Infusion into working capital assists SacRT with liquidity needs and reduces reliance on the Line of Credit (LOC); as such this will not require board approval to utilize these funds.

Moving forward, should reserves fall below the levels described in the policy, staff will prepare an affordable catch-up plan describing the time period over which reserves will be established to meet at least the minimum in each category. It is the intent that reserves will be established in a timely manner, and staff will report gaps and progress to establish the reserves to the Board routinely.

#### **IV. Approach to Establishing Reserves**

SacRT will establish, maintain, and build reserves consistent with the following criteria by reserve category:

Operating Reserve: SacRT will strive to establish and maintain 16.4% ~~42.3%~~ of the annual operating budget, which is the equivalent of 2.0~~4.5~~ months of operating expense (less the current year Self-Insurance expense), in reserve for operations to be used if necessary to meet emergencies or unexpected operating contingencies. SacRT shall maintain at least a minimum operating reserve of 8%, or 30 days of operating expense (less the current year Self-Insurance expense). The Government Finance Officers Association best practice recommendation for an operating reserve balance is 60 days of operating expense.

- Self-Insurance Reserves: SacRT will strive to establish and maintain a reserve equal to the actuarially determined liability for SacRT's self-insurance retention, focusing on current liabilities to be paid in future years (i.e., total liability less funds

paid out in the current year). The actuarial study will be performed at least annually. The study will address expenses related to Workers' Compensation claims incurred and incurred, but not reported, as well as general liability claims incurred and incurred, but not reported. At minimum, SacRT will develop and maintain a reserve equal to the current year actuarially determined claim expense.

- Capital Reserves: SacRT will contribute annually to this fund recognizing that capital assets are depreciating at a known pace, and will require refurbishment or replacement at a future date. The amount of the annual contribution will be the local share of the replacement cost, pro-rated by years of useful life by asset class. At minimum, capital reserves will match the cash flow needs of local contributions to capital programs each and every year. At maximum, the reserve will fully fund the local share of capital costs on a pro-rata basis considering useful life of each asset class. Depending upon the expected fund balance, this amount might be discounted by expected investment earnings.
- Grant/Project Specific Reserves: The initial purpose of this category is to build and maintain a level of reserves equal to 10% of the total project cost for the Blue Line to Cosumnes River College (BLCRC) project by 2015, or the year the project is completed, to provide additional contingent coverage for cost overruns as required by the Federal Transit Administration (FTA). In subsequent years, additional contingent reserves might be required for large projects or as part of a grant agreement. Once the specific project or grant is closed out, funds remaining in this reserve may be allocated for other reserves or budgeted purposes of SacRT consistent with source and use of fund restrictions.
- Working Capital Account: The purpose of working capital account is to increase SacRT's liquidity to levels that reduce reliance on the LOC. There is no established minimum or maximum for this category. The funds will be utilized at the direction of management for purposes of maintaining adequate cash balances as a result of cyclical changes in receipts, disbursements, and economic changes.

## **V. Compliance with Regulations**

SacRT will comply with all relevant laws and regulations governing fiscal responsibilities, reserves and sources and uses of funds. Among these are:

- The California Transportation Development Act and its amendments
- Federal funding guidelines and agreements
- Generally Accepted Accounting Principles (GAAP).

## **VI. Establishment of Reserves**

SacRT received Board approval to use operating reserves to cover budget shortfalls during FY 2014 and FY 2015. During FY 2016, this trend stopped and since then, the annual operating surplus has been used to increase the reserve balances and working capital account. Staff will prepare an analysis of minimum and full reserve requirements for each of the four categories and the total. The reserve needs shall be presented to the Board no later than as part of the annual budget process each and every year. If reserves fall below

the minimum in one or more categories, staff will prepare an affordable catch-up plan to cover the shortfall. The annual contribution to reserves, working capital and the catch-up plan where needed, will become part of the budget, and be reflected in the Financial Forecasting Model, short range transit plans, grant applications (as appropriate), and general communications. Staff will report on reserve needs (minimum and full funding), planned contributions, shortfalls and the catch up plan (as appropriate) at least at mid-year and annual budget discussions.