

RIVERSIDE TRANSIT AGENCY
1825 Third Street
Riverside, CA 92507

July 28, 2005

TO: BOARD OF DIRECTORS
THRU: Larry Rubio, Chief Executive Officer *L. Rubio*
FROM: Chris Gallanes, Chief Financial Officer *C.G.*
SUBJECT: Request for Modification of Reserve Policy

Summary: In May 2002, the Board of Directors approved an Agency reserve policy that established fixed dollar reserves for use in the areas of the Capital Improvement Plan (CIP), Bus Rapid Transit (BRT), anticipated acquisitions, and a formula driven portion based on 1/12th of the annual Local Transportation Fund (LTF) allocation, allowing for potential Federal operating assistance funding delays. The fixed dollar thresholds are as follows:

- CIP Reserves: \$800,000
- BRT Implementation: \$4,000,000
- Anticipated Acquisition: \$2,200,000
- Formula Driven: \$2,040,861

In June 2002, \$1,062,000 of reserves established for anticipated acquisition has been used to purchase the property adjacent to the Riverside administration building. In fiscal year 2004 and 2005, reserves were drawn down to temporarily fund operating expenses because of Federal funding delays. The draw downs totaled \$4,300,000 and \$5,830,000, respectively.

In January 2005, the Riverside County Transportation Commission (RCTC) implemented a separate reserve policy for LTF funds to cover unforeseen cost increases. Computation examples using fiscal year 2005 apportionments show that RCTC will set aside a fiscal year reserve amount of \$3,066,713 for the Agency.

Due to changes in potential reserve use and the separate reserve policy established by RCTC, staff must review the existing reserve policy and, if necessary, make modifications to reflect current transit financial conditions.

A proposed reserve policy modification is attached for consideration. It outlines criteria for the use of allocated unclaimed

Agency LTF reserves held by the RCTC, as well as the criteria in which to draw down annual reserves allocated to the Agency per the RCTC reserve policy adopted in January.

The proposed policy categorizes a reserve draw down into specific types (Temporary and Permanent) and establishes distribution thresholds based on specific reserve fund categories. The reserve fund categories are shown below:

1. Cash Flow Offset (Temporary Draw Down) – Reserves earmarked to fund operations or a Board approved capital project implemented in advance of receiving Federal, State, or Local funding. 100 percent of the current year beginning reserve balance will be held (no draw down of reserves will occur) until all Federal, State, and Local operating funds are approved. Only after operating funds are approved will a request for a draw down of any other reserve type be considered.
2. Board Designated Reserves (Permanent Draw Down) – Reserves earmarked for a specific purpose as determined by the Board of Directors. Board designated reserves consist of the following:
 - a. Major Infrastructure Initiatives – Reserves earmarked for implementation of a demonstration phase of an infrastructure initiative and/or related infrastructure improvement. Examples include Bus Rapid Transit (BRT), Intelligent Transportation System (ITS), and Universal Fare System (UFS). 75 percent of the Agency’s allocated unclaimed reserves will be allocated to this category annually.
 - b. Capital Acquisitions – Reserves earmarked for purchase of capital related items that are not funded with new Federal, State, or Local funds. This category will equal 15 percent of the current fiscal year capital budget.
 - c. Match for Grant Awards – Reserves earmarked to fund the match portion of grant/CIP projects outside of the normal budget and Short Range Transit Plan (SRTP) process. Funding that remains after establishment of dollar values for (a) and (b) above will be earmarked to this category.
3. Unrestricted Reserves – Reserves earmarked for unforeseen expenditure increases or unforeseen emergencies.

Draw downs associated with Category 1 and 2, as well as revenue shortfalls resulting from fiscal year-end reconciliations will be funded with allocated unclaimed Agency reserves. RCTC reserves will be used for draw down of Unrestricted Reserves.

Fiscal Impact:

Fiscal impact is not known at this time. An example of an annual reserve calculation is provided as an attachment to the reserve policy. Amounts are estimates and subject to change, and are to be used for planning purposes only.

Committee Recommendation:

This item was discussed at the Board Budget and Finance Committee meeting of July 6, 2005. Staff indicated that the proposed reserve policy had been transmitted to the RCTC for review. The RCTC review noted that revenue shortfalls resulting from fiscal year-end reconciliations are mitigated using allocated unclaimed Agency reserves. The proposed policy presented to the Committee classified fiscal year-end revenue shortfalls as Unrestricted Reserves; 100 percent of this reserve category being reimbursed with RCTC reserves. The Committee members unanimously approved revising the proposed policy to reflect year-end revenue shortfalls of this nature to be reimbursed with allocated unclaimed Agency reserves.

The Purpose, Reserve Fund Category, and Distribution Threshold section of the proposed policy have been revised to reflect this change. The Committee members unanimously approved recommending this item to the full Board of Directors for their consideration.

Recommendation:

Approve the modified reserve policy.

RIVERSIDE TRANSIT AGENCY RESERVE POLICY

PURPOSE

Establish the general guidelines for a Reserve Policy that will ensure that the Agency will have sufficient funding available to meet its operating and capital service obligations. Reserves will be managed in a conservative manner that allows the Agency to fund expenditures consistent with major infrastructure initiatives, Capital Improvement Plan (CIP) and other long-term plans while having funds available to temporarily offset changes in short-term cash flow. This policy outlines criteria for the use of allocated unclaimed Agency Local Transportation Fund (LTF) reserves held at the Riverside County Transportation Commission (RCTC), as well as the criteria and process used to draw down reserve funds in accordance with a separate Reserve Policy established by the RCTC.

On an annual basis, as soon as practical after reporting of prior year-end financials and reconciliation of Agency revenues, staff will report current year reserve balances for both allocated unclaimed cumulative reserves on hand, as well as annual reserve appropriations per the separate RCTC reserve policy. The board will adopt the reserve policy annually based on the current year reserve balances and thresholds identified.

SCOPE

This reserve policy encompasses the following reserve allocations:

1. Allocated unclaimed Agency LTF reserves held at the RCTC.
2. Annual reserves allocated to the Agency per RCTC LTF reserve policy adopted January 12, 2005.

The policy applies to operating and capital reserve funds. Prior to implementation, requests for the use of reserve funds and related reprogramming of reserve funds between operating and capital will require Board/RCTC approval.

POLICY

Reserve Funding Types

A reserve fund draw down is divided into the following types:

1. Temporary Draw Down - Draw down of reserve funding in order to temporarily fund operations or a capital project implemented in advance of receipt of Federal, State, or Local funding. After implementation of a Temporary draw down, reserve funds will be

RIVERSIDE TRANSIT AGENCY RESERVE POLICY

- reimbursed upon receipt of the Federal, State, and Local funds and corresponding adjustment of LTF disbursement schedules.
2. Permanent Draw Down – Drawdown of reserve funding to implement a Board approved initiative or project that will not be reimbursed with Federal, State, or Local funding. Reserve fund balances will be adjusted to reflect implementation of a Permanent Draw Down.

Reserve Fund Categories

There are three major categories of reserve funds:

1. Cash Flow Offset (Temporary Draw Down) – Reserves earmarked to fund operations or a Board approved capital project implemented in advance of receiving Federal, State, or Local funding. Current year beginning reserve balances will be held (no draw down of reserves) until all Federal, State, and Local operating funds are approved. Only after operating funds are approved will a request for a draw down of any reserve type be considered. A Temporary draw down will be reimbursed upon receipt of the Federal, State, and Local funds and adjustment of LTF disbursement schedule.
2. Board Designated Reserves (Permanent Draw Down) – Reserves earmarked for a specific purpose as determined by the Board of Directors. Board Designated Reserves consist of the following:
 - Major Infrastructure Initiatives – Reserves earmarked for implementation of a demonstration phase of an infrastructure initiative and/or related infrastructure improvement. Examples of major infrastructure initiatives include, but are not limited to Bus Rapid Transit (BRT), Intelligent Transportation System (ITS), and Universal Fare System (UFS).
 - Capital Acquisitions – Reserves earmarked for purchase of capital related items that are not funded with new Federal, State, or Local funds.
 - Match For Grant Awards – Reserves earmarked to fund the match portion of grant/Capital Improvement Plan (CIP) projects outside of the normal budget and Short Range Transit Plan (SRTP) process.
3. Unrestricted Reserves – Reserves earmarked for unforeseen expenditure increases or emergencies ~~unanticipated revenue shortfalls~~. Examples include, but are not limited to self-insured workers' compensation payouts, and greater than planned resources needed to maintain current service, ~~less than planned receipt of~~

RIVERSIDE TRANSIT AGENCY RESERVE POLICY

~~Agency farebox revenues, and other revenue shortfalls identified in Agency year-end financial statements.~~

Revenue shortfalls identified from fiscal year-end Agency reconciliations will be mitigated using allocated unclaimed Agency reserves.

Distribution Thresholds by Category

Annual reserve dollar amounts will be established for each category of reserve funds. The dollar amounts will be based on the application of pre-determined thresholds. Changes to these thresholds will require Board approval.

Reserve dollar amounts will be established on an annual basis and be approved by the Board, as soon as practical after the reporting of prior year-end financials. These dollar amounts will be recalculated on an annual basis, and will not exceed the prior year-end balance.

The thresholds will be determined using the following methodology:

Temporary Drawdown for Cash Flow Offset – 100 percent of the annual reserve amount will initially be allocated to Cash Flow Offset. Other reserve dollar thresholds will be established; however, they are contingent upon all fiscal year operating funding being approved by the funding organization. Other draw down distributions will be considered only after all Federal, State, and Local funds are approved for operations.

A draw down in this category will utilize allocated unclaimed Agency LTF reserves held at the RCTC.

Board Designated Reserves

Major Infrastructure Initiatives – Threshold set at 75 percent of the Agency's allocated unclaimed reserves in a fiscal year. The corresponding dollar value will be distributed among the major infrastructure initiatives approved by the Board. Major infrastructure initiatives may be revised at any time given Board approval. Dollar values for each major infrastructure initiative that are identified will remain as constant as possible, and will be adjusted annually to reflect prior year draw down and annual adjustments corresponding to the 75 percent threshold.

A draw down in this category will utilize allocated unclaimed Agency LTF reserves held at the RCTC.

RIVERSIDE TRANSIT AGENCY RESERVE POLICY

To establish the remaining reserve thresholds, the dollar value of major infrastructure initiatives will be subtracted from the prior year-end reserve balance. The remaining reserve balance after this adjustment will be distributed to the other reserve categories based on the adopted threshold calculation methodology.

The reserves specified for major infrastructure initiatives are for implementation of the demonstration phase of the infrastructure related initiative approved by the Board of Directors. Once the Board determines that a demonstration phase is complete, and the initiative is integrated into the overall Agency service profile, all remaining reserve funds will be reallocated to another category during the next annual reserve policy approval process. Once the demonstration phase is complete, the Board will authorize traditional transit funding to run that operation.

Capital Acquisitions – Threshold set at 15 percent of the current fiscal year capital budget.

Match for Grant Awards – Threshold set as remainder of allocated unclaimed Agency LTF reserves held at the RCTC after the dollar amounts of major infrastructure initiatives and capital acquisitions are determined.

Unrestricted Reserves – 100 percent of annual reserves allocated to the Agency per RCTC LTF reserve policy. All unrestricted reserve draw downs will utilize the RCTC LTF reserves in accordance with the adopted process to access reserve funds.

The RCTC LTF reserve policy states the following [information: draw down criteria:](#)

1. Ten percent reserve should be established for unforeseen cost increases.
2. Reserves should be restricted to maintaining current service levels in the event of a revenue shortfall or unforeseen emergency.
3. Reserves should not be for service enhancements.
4. Each operator should have its own reserve fund.

Unrestricted Reserves as defined in the Agency reserve policy clearly align with items 1 and 2 in the RCTC LTF reserve policy. This, coupled with the inability to use RCTC LTF reserves for service enhancements form the basis to use RCTC LTF reserves only for Agency defined unrestricted reserves. ~~RCTC LTF reserves will also be used to offset~~

RIVERSIDE TRANSIT AGENCY RESERVE POLICY

~~revenue shortfalls identified in the Agency year-end reconciliation of revenues and financial statements.~~ The RCTC LTF reserve policy is included as an attachment to this policy.

Process to Access Reserve Funds

In order to request a draw down reserve funding at either the Agency or RCTC, staff will prepare a report that specifies the request, the amount of reserve funds needed, the reserve funding type/category, and the specific reserve allocation (Agency or RCTC) that the reserve will be applied toward. The report should include a justification of need and the operating and/or capital impact of implementation. It should also include all applicable documentation for implementation of a budget and SRTP amendment.

The report will be presented to the Agency Board of Directors for consideration. If approved, the request will be submitted to the RCTC Board of Commissioners for their consideration and approval.

An example of an annual reserve calculation is provided as an attachment to this policy. Amounts are estimates and subject to change, and are to be used for planning purposes only.

**RIVERSIDE TRANSIT AGENCY
RESERVE POLICY**

Attachment 1

EXAMPLE OF RESERVE COMPUTATION

Allocated Unclaimed Agency LTF Reserves Held at RCTC	
Beginning Balance 6/30/04	\$ 7,825,197
Permanent Actions (FY2005)	
Route 1 Limited (May-05)	412,599
Operating Fund Deficit (May-05)	<u>1,683,838</u>
Subtotal: Permanent Actions	<u>2,096,437</u>
Estimated Reserves Available for FY2006	<u>\$ 5,728,760</u>

FY2006 Reserve Allocation - Agency Reserve Policy

Cash Flow Offset (100% of Available Reserves) \$ 5,728,760

← Held until all fiscal year operating funding is approved by the funding agency.

Board Designated Reserves

Major Infrastructure Initiatives - BRT (75% of Total Agency Reserve)	\$ 4,296,570	Allocated after all
Capital Acquisitions (15% of \$8.7M FY2006 Capital Budget)	1,310,554	fiscal year
Match for Grant Awards (Remainder After BRT & CA)	121,636	operating funding
Unrestricted Reserves (100% Utilization of RCTC Reserves)	<u>-</u>	is approved by
Total Board Designated Reserves	<u>\$ 5,728,760</u>	the funding
		agency.

FY2006 Reserve Allocation - RCTC Reserve Policy

<u>Agency</u>	<u>Reserve Amount</u>	
RTA	\$ 3,066,713	← Agency portion of Western Riverside County Reserve Apportionment. Used for Unrestricted Reserve draw down only. Includes revenue shortfalls identified in year-end financials.
Banning	100,842	
Beaumont	105,395	
Corona	153,735	
Riverside	<u>218,960</u>	
Total Reserves	<u>\$ 3,645,645</u>	

RIVERSIDE COUNTY TRANSPORTATION COMMISSION

DATE:	January 12, 2005
TO:	Riverside County Transportation Commission
FROM:	Transit Policy Committee Tanya Love, Program Manager Theresia Trevino, Chief Financial Officer
THROUGH:	Eric Haley, Executive Director
SUBJECT:	Reserve Policy for Local Transportation Funds

TRANSIT POLICY COMMITTEE* AND STAFF RECOMMENDATION:

This item is for the Commission to:

- 1) Establish a transit operators' reserve policy of 10% for Coachella Valley and Palo Verde Valley apportionment areas;
- 2) Establish a transit operators' reserve policy of 10% for each of the transit operators (*public bus and commuter rail*) in the western Riverside County apportionment area; and,
- 3) Revise the Funding Disbursement Policy so that 100% of the operating funds are allocated and disbursed with two-twelfths of the 100% disbursed the first month and the remainder (ten-twelfths) disbursed over the next eleven months.

*This item is scheduled to be reviewed by the Transit Policy Committee on January 6th. If there is a variance in the above recommendations, this item will be requested to be pulled from the Consent Calendar. This is forwarded to the Commission prior to the review of the Committee to meet the mail out and posting requirements.

BACKGROUND INFORMATION:

At the October 18, 2004 Transit Policy Committee (TPC) meeting, staff recommended that a 10% reserve policy be established for each of the three apportionment areas. A reserve policy was recommended due to operating costs outpacing current year revenue. Much discussion followed regarding cash flow issues due to non-receipt of federal funding. It became apparent that additional discussion needed to take place and as a result, the TPC directed Commission staff to convene a staff to staff level meeting to further discuss the issue of operating reserves.

In follow-up, a conference call and two meetings were held. Agreement on the proposed policy was quickly reached with staff from SunLine, the City of Blythe and the Commuter Rail Program. The development of a reserve policy in western Riverside County was not as easy due to the number of operators in the area.

As a result, a subsequent meeting was held to further discuss cash flow issues. At the second meeting, consensus was reached among the municipal operators as follows:

- a. Ten (10%) reserve should be established for unforeseen cost increases;
- b. Reserves should be restricted to maintaining current service levels in the event of a revenue shortfall or unforeseen emergency;
- c. Reserves should not be for service enhancements; and,
- d. Each operator should have its' own reserve fund.

The Riverside Transit Agency proposed that the reserve policy be established between 11% and 17%. Recommendations were also made that reserves be available for infrastructure and service improvements as well as for capital purchases and included "triggers" for drawdown of reserves.

Subsequent to the Transit Policy Committee, a letter was received from Jon Winningham, Chairman of RTA's Board, which concluded that RCTC *"needs to determine the appropriate reserve level, with documented processes to access the reserve, for all transit operators"*.

Process to Calculate 10% Reserve

The amount of the required reserve for the fiscal year would be calculated as 10% of the Local Transportation Fund (LTF) apportionment balance after deductions for administration, planning, and SB 821 program funding. The unallocated reserve balance of 10% would be set aside before allocation to the three apportionment areas based on population. Attachment A is an illustration of the calculation using FY 2004-05 amounts.

Elimination of 10% Withhold from Annual Allocation

In order to implement the revised reserve policy, staff recommends that the Commission also revise the Funding Disbursement Policy adopted on February 13, 2002. Currently, 10% of the annual allocation for each operator is not disbursed until June after the Commission has determined that sufficient revenues have been received. Under the new reserve policy, this approach is no longer necessary as the 10% reserve can cover costs if revenue comes in lower than projected.

Accordingly, staff recommends that 100% of the annual allocation be disbursed with two-twelfths in the first month and the remainder of the 100% over the next eleven months.

Process to Access Reserve Funds

Western Riverside County transit operators requested that RCTC implement some type of automatic trigger mechanism to allow them to tap into reserve funds. Staff recommends that operators access reserve funds by amending their SRTP through the established amendment process. Each request would be considered based on its own merit, and as a result, provide flexibility to the operators. All requests will be presented to the Commission for review.

Attachments:

- 1) Riverside County LTF 2004-2005 Apportionment
- 2) RTA Letter

**RIVERSIDE COUNTY
LOCAL TRANSPORTATION FUND
2004-2005 APPORTIONMENT (REVISED)**

DRAFT
For Discussion Purposes Only

	Budget FY 2004-2005 Projection
Estimated Carryover (Unapportioned)	\$5,490,333
Est. Receipts	58,580,960
TOTAL	64,071,293
Less: Auditor	12,000
Less: RCTC Administration	675,000
Less: RCTC Planning (3% of revenues)	1,757,429
Less: SCAG Planning	106,300
BALANCE	61,520,564
Less: SB 821 (2% of balance)	1,230,411
BALANCE AVAILABLE BEFORE RESERVES	60,290,153
Less: 10% Transit Reserves	6,029,015
BALANCE AVAILABLE AFTER RESERVES	\$54,261,138

Current Policy:

	Population	Population % of Total	Revised Budget FY 2004-2005 Apportionment (no reserves)
Western	1,322,192	77.52%	\$46,739,038
Coachella Valley	355,287	20.83%	12,559,275
Palo Verde Valley	28,058	1.65%	991,841
	1,705,537	100.00%	\$60,290,153
Western County:			
Rail		22%	\$10,282,588
Transit		78%	36,456,449
Total			\$46,739,038

Proposed Policy:

	Population	Population % of Total	Budget FY 2004-2005 Apportionment (after 10% reserves)		
Western	1,322,192	77.52%	\$42,065,134	Rail 22%	
Coachella Valley	355,287	20.83%	11,303,347	\$	Transit 78%
Palo Verde Valley	28,058	1.65%	892,657	\$	9,254,329
	1,705,537	100.00%	\$54,261,138	\$	32,810,804

Reserve Allocation:

		Rail	Transit	
Western	\$ 4,673,904	\$ 1,028,259	\$ 3,645,645	
Coachella Valley	1,255,927		\$ 3,066,713	RTA
Palo Verde Valley	99,184		\$ 100,842	Banning
			\$ 105,395	Beaumont
			\$ 153,735	Corona
			\$ 218,960	Riverside
Total Reserve	\$ 6,029,015			

NOTES: Estimate for Planning Purposes, subject to change

Population Source: California Department of Finance, Demographic Research Unit as of January 1, 2003



December 13, 2004

Ms. Tanya Love
 Program Manager
 Riverside County Transportation Commission
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Riverside Transit Agency

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RE: Transit Operators' Reserve Policy

RECEIVED
 DEC 16 2004

Dear Tanya:

RIVERSIDE COUNTY
 TRANSPORTATION COMMISSION

RTA has been pleased to participate in the development of a reserve policy for the apportionment area of Western Riverside County. Representatives from both the RTA Board of Directors and staff participated in all policy development meetings and workshops. They were very productive and allowed for discussion and input of ideas and concepts from all stakeholders.

Based on those meetings, RTA feels confident that the Riverside County Transportation Commission (RCTC) will develop a reserve policy that considers all the suggestions and concepts discussed to ensure continued transit operations in the event of a revenue disruption or capital acquisitions.

Although I would have preferred to discuss this with the RTA Board of Directors' Budget and Finance Committee, I do understand RCTC's urgency to secure this policy.

I thank you for the opportunity to participate in the discussion and trust RCTC staff will determine an appropriate reserve level, with documented processes to access the reserve, for all transit operators. If you have any questions, please feel free to contact Larry Rubio at 951-565-5022 or by e-mail lrubio@riversidetransit.com.

Regards,

Jon Winningham
 Chairman of the Board of Directors

JW/mh

c/ RTA Board of Directors
 L. Rubio, RTA
 E. Haley, RCTC