



**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT (METRO)
FINANCE, BUDGET AND AUDIT STANDING COMMITTEE AGENDA
REGULAR MEETING
NOVEMBER 8, 2019 – 8:00AM
METRO ADMIN OFFICES
110 VERNON STREET
SANTA CRUZ, CA 95060**

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The Committee may take action on each item on the agenda. The action may consist of the recommended action, a related action or no action. Staff recommendations are subject to action and/or change by the Board of Directors.

COMMITTEE ROSTER

Director Trina Coffman-Gomez	City of Watsonville
Director Donna Lind	City of Scotts Valley
Director Donna Meyers	City of Santa Cruz
Director Mike Rotkin	County of Santa Cruz
Alex Clifford	METRO CEO/General Manager
Angela Aitken	METRO CFO
Julie Sherman	METRO District Counsel

AMERICANS WITH DISABILITIES ACT

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MEETING TIME: 8:00AM

NOTE: THE COMMITTEE CHAIR MAY TAKE ITEMS OUT OF ORDER

- 1 CALL TO ORDER**
- 2 ROLL CALL**

3 ORAL AND WRITTEN COMMUNICATIONS TO THE FINANCE, BUDGET & AUDIT STANDING COMMITTEE

This time is set aside for Directors and members of the general public to address any item not on the Agenda, but which is within the matter jurisdiction of the Committee. Each member of the public appearing at a Committee meeting shall be limited to three minutes in his or her presentation, unless the Chair, at his or her discretion, permits further remarks to be made. Any person addressing the Committee may submit written statements, petitions or other documents to complement his or her presentation. When addressing the Committee, the individual may, but is not required to, provide his/her name and address in an audible tone for the record.

4 ADDITIONS OR DELETIONS FROM AGENDA/ADDITIONAL DOCUMENTATION TO SUPPORT EXISTING AGENDA ITEMS

5 MONTHLY FINANCIAL UPDATE

Angela Aitken, CFO

6 FY19 PRELIMINARY SCHEDULE OF RESERVE ACCOUNT BALANCES

Angela Aitken, CFO

7 CONSIDERATION OF REVISIONS TO THE RESERVE FUND POLICY

Angela Aitken, CFO

8 UAL AND OPEB PRESENTATION ON RECOMMENDATIONS TO REDUCE UNFUNDED LIABILITIES

Angela Aitken, CFO

9 APPROVAL OF NEW CAPITAL PROJECTS AND UPDATED 10-YEAR UNFUNDED CAPITAL NEEDS LIST

Barrow Emerson, Planning & Development Director

10 ADJOURNMENT

Pursuant to Section 54954.2(a)(1) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day. The agenda packet and materials related to an item on this Agenda submitted after distribution of the agenda packet are available for public inspection in the Santa Cruz METRO Administrative Office (110 Vernon Street, Santa Cruz) during normal business hours. Such documents are also available on the Santa Cruz METRO website at www.scmtd.com subject to staff's ability to post the document before the meeting.



Year to Date Monthly Financial Report as of September 30, 2019

Santa Cruz METRO Board of Directors

November 8, 2019

Angela Aitken, Chief Financial Officer

FY20 Operating Revenue and Expenses

For the Month Ending September 30, 2019

25% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
Operating Revenue:	\$3,273	\$3,109	\$165
Operating Expenses:			
Labor - Regular	\$1,340	\$1,456	\$116
Labor - Overtime	\$299	\$155	(\$144)
Fringe Benefits	\$1,416	\$1,572	\$156
Non-Personnel Expenses	\$702	\$789	\$87
Total Operating Expenses:	\$3,757	\$3,973	\$216
Transfers:	(\$204)	(\$171)	\$33
Operating Balance:			\$348

FY20 Operating Revenue and Expenses

Year to Date as of September 30, 2019

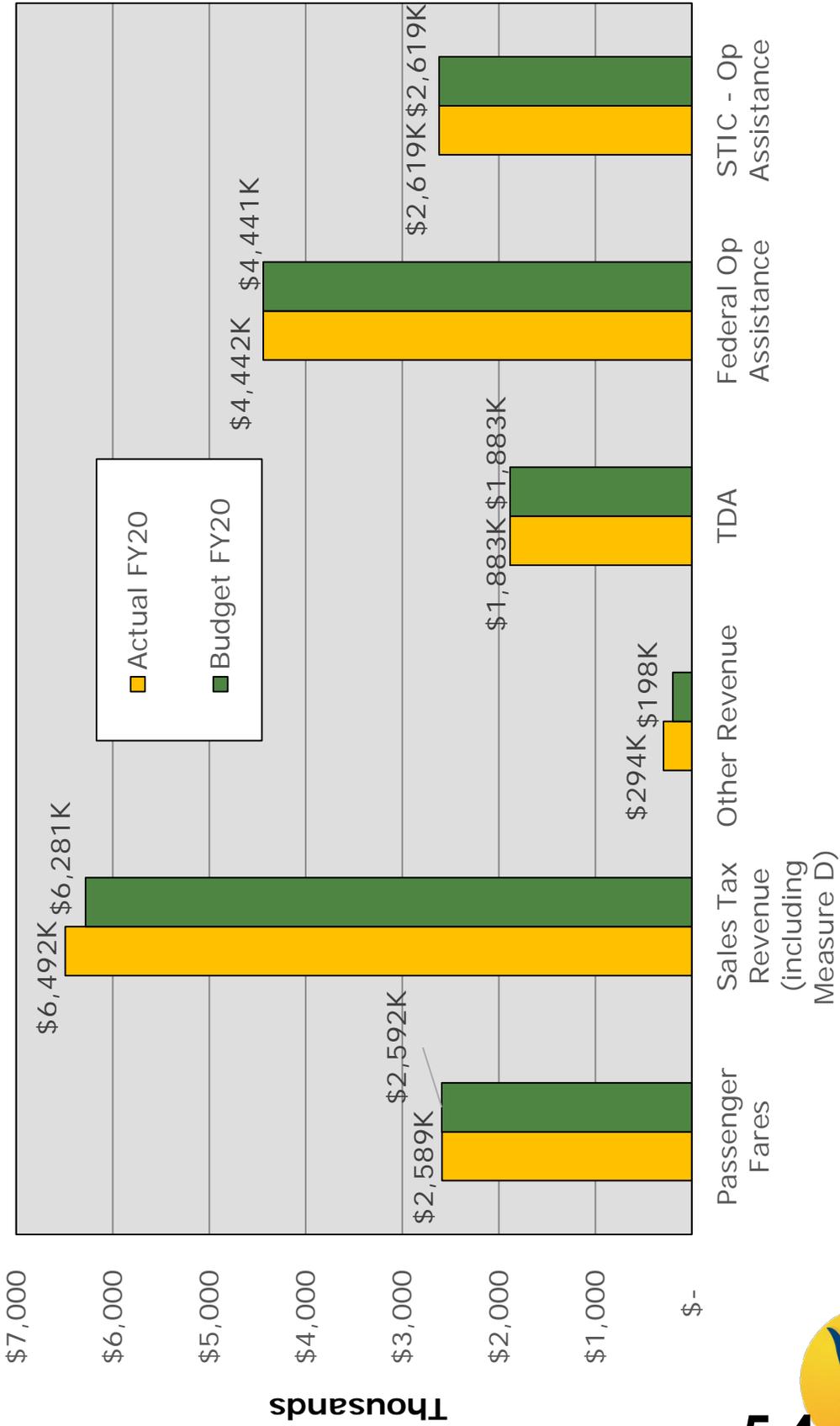
25% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
Operating Revenue:	\$18,319	\$18,014	\$305
Operating Expenses:			
Labor - Regular	\$4,000	\$4,369	\$369
Labor - Overtime	\$820	\$466	(\$354)
Fringe Benefits	\$8,305	\$8,762	\$457
Non-Personnel Expenses	\$2,376	\$2,366	(\$10)
Total Operating Expenses:	\$15,501	\$15,963	\$462
Transfers:	(\$544)	(\$512)	\$32
Operating Balance:			\$735

51-33



FY20 Operating Revenue by Major Funding Source Year to Date as of September 30, 2019 25% of Fiscal Year Elapsed

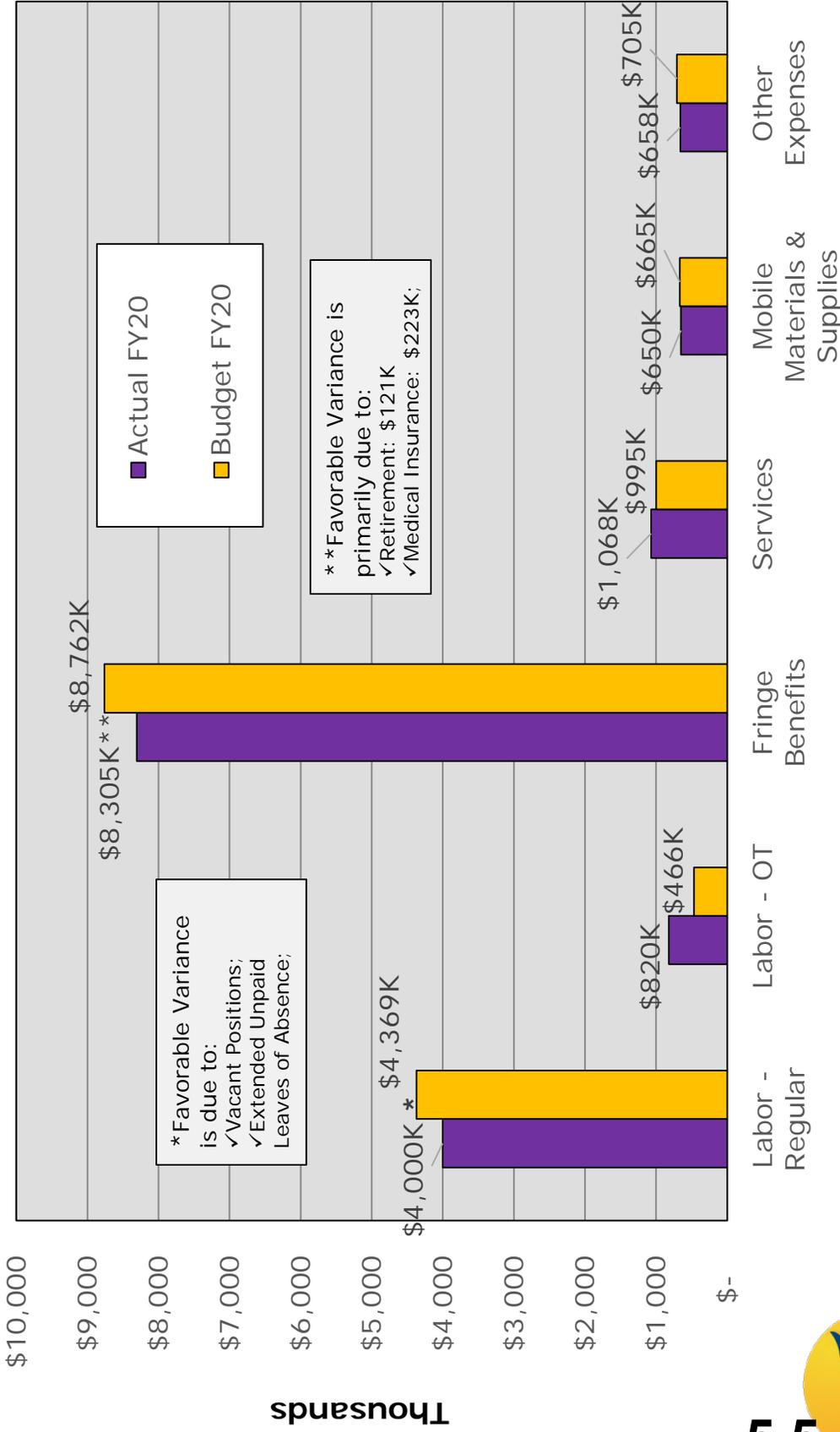


5.4

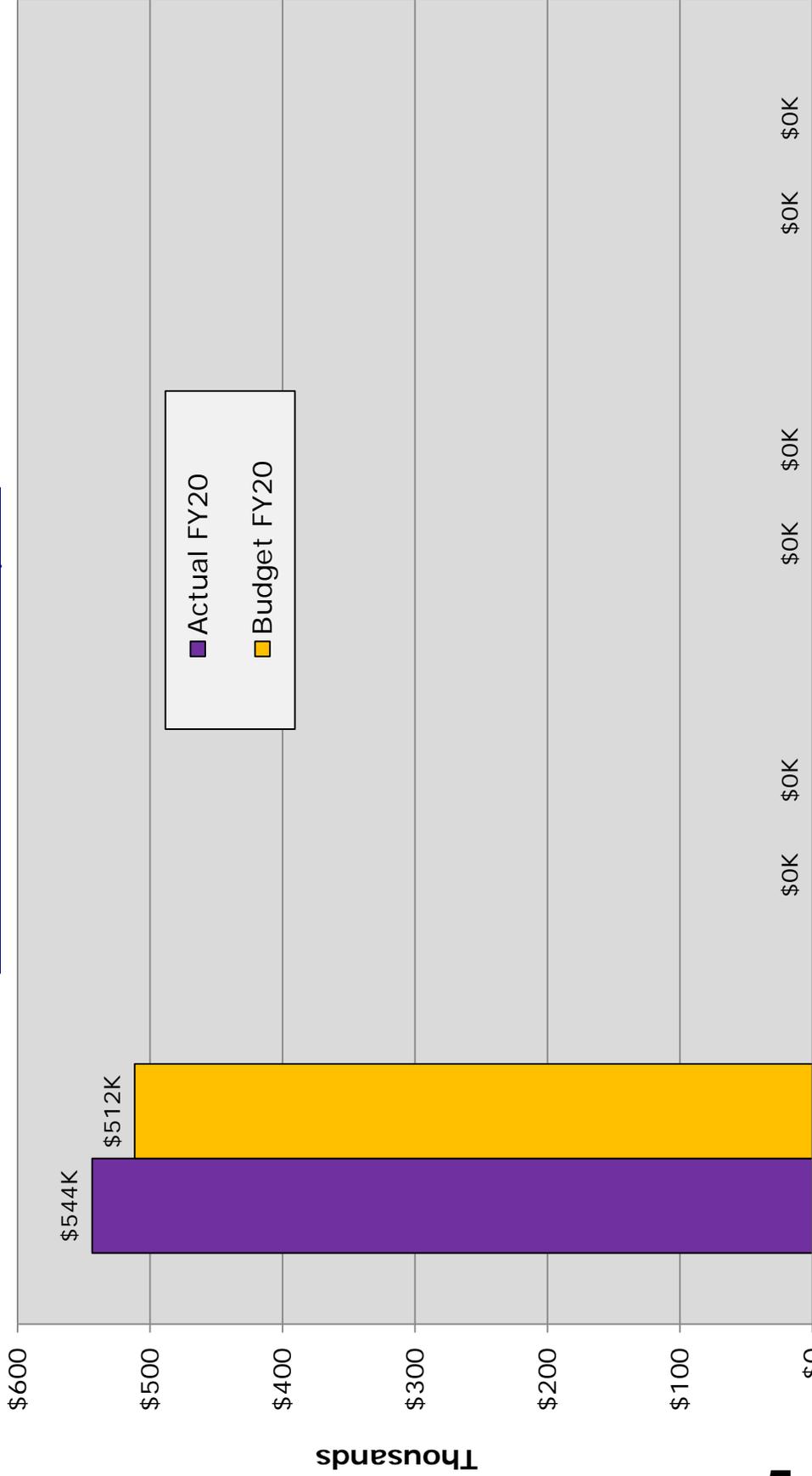


FY20 Operating Expenses by Major Expense Category Year to Date as of September 30, 2019

25% of Fiscal Year Elapsed



FY20 Transfers Year to Date as of September 30, 2019 25% of Fiscal Year Elapsed



5.6



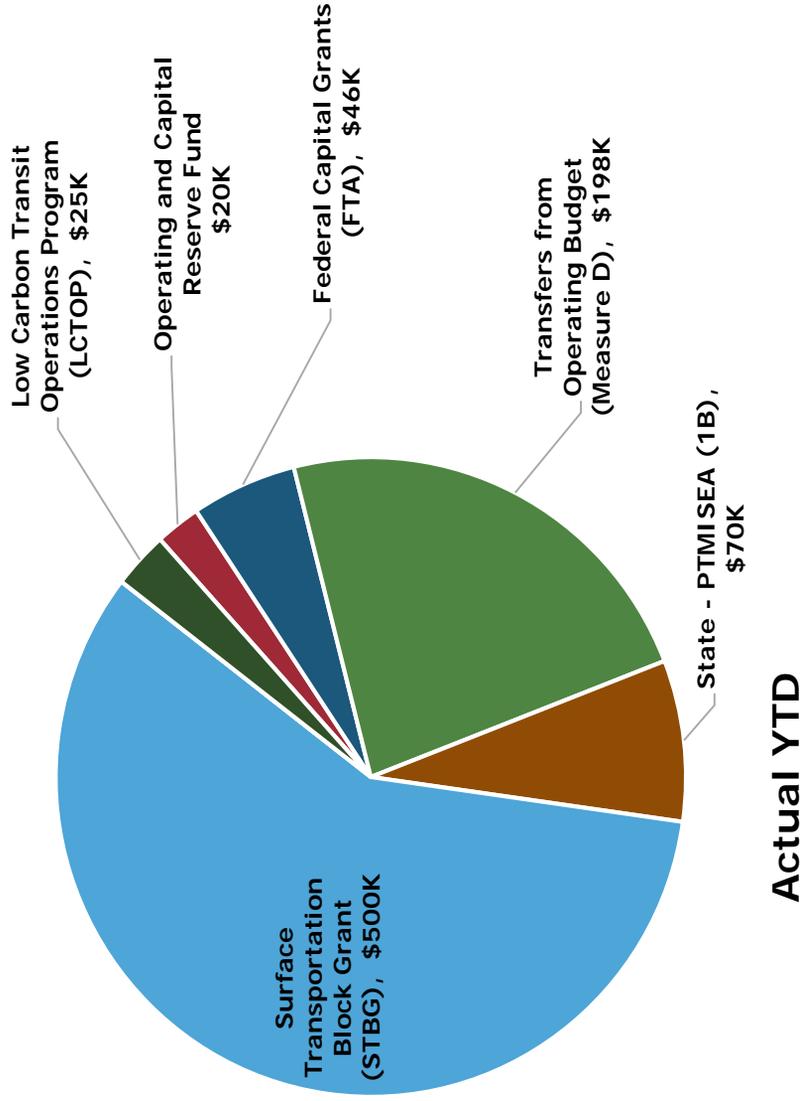
Transfer to Capital Budget (2016 Net Sales Tax Measure D) STA-Operating, Includes SB1 Reserve Fund (Fuel Tax) Capital Reserve Fund

FY20 Capital Budget:

Spending Year to Date (by Funding Source) as of September 30, 2019

25% of Fiscal Year Elapsed

	Actual YTD	Total FY20 Budget	% Spent YTD
Total Capital Funding:	\$858,785	\$21,458,920	4%

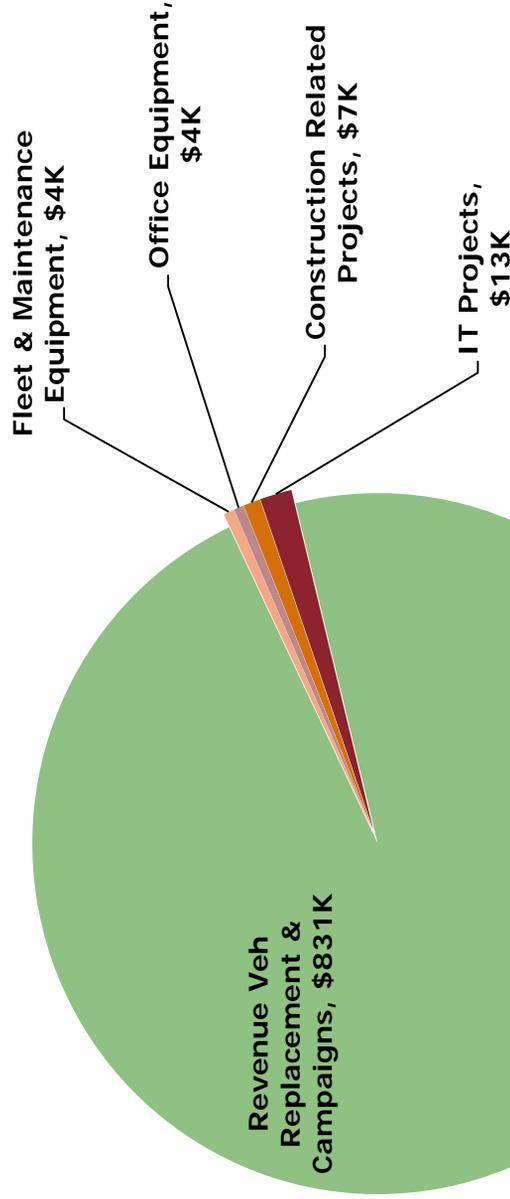


FY20 Capital Budget:

Spending Year to Date as of September 30, 2019

25% of Fiscal Year Elapsed

	Actual YTD	Total FY20 Budget	% Spent YTD
Total Capital Projects:	\$858,785	\$21,458,920	4%



5.8



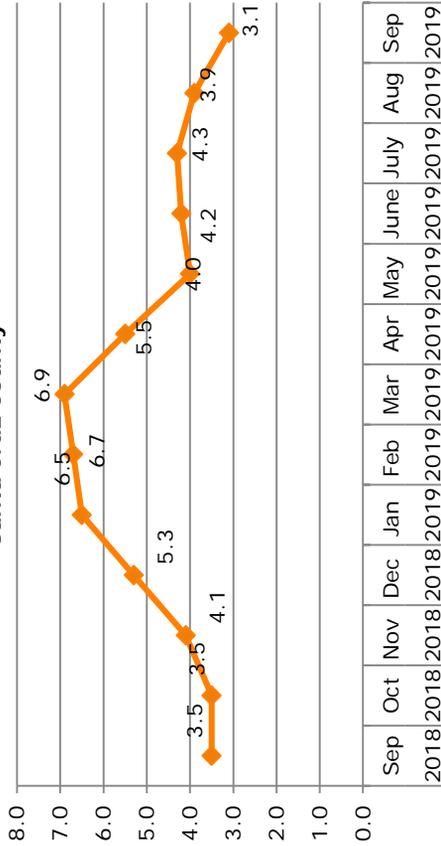
Additional Information

5.9

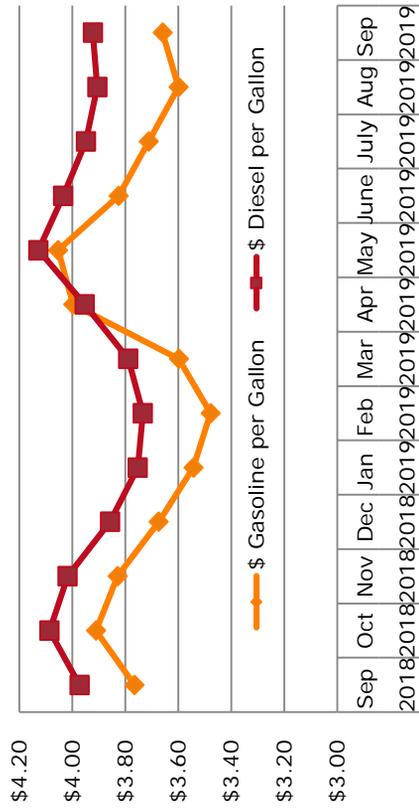


Economic Indicators & Ridership:

**Unemployment Rate %
Santa Cruz County**



**\$ Diesel/Gasoline per Gallon
San Francisco – Oakland – San Jose**



FY19-20 Ridership: September YTD

Ridership	FY19	FY20	% Change
Total	871,294	900,734	3.4%
Hwy 17	68,435	67,30	-1.8%
Local	802,859	833,504	3.8%
UCSC*	265,847	288,446	8.5%
Cabrillo**	68,717	67,530	-1.7%
Non-Student	468,295	477,528	2.0%

Enrollment Information

UCSC	3 Quarter Average (On-campus)		% Change
	2018/19	2019/20	
18,598	19,010 (projection)	2.2%	
Cabrillo	Fall/Spring Average		
	2018/19	2019/20	% Change
11,419	Info Pending	Info Pending	



FY20 Operating Revenue, Expenses, and Transfers:
Year to Date as of October 31, 2019: PRELIMINARY:

33% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
Revenue:	\$21,998	\$22,096	(\$98)
Operating Expenses:			
Personnel Expenses	\$16,478	\$16,782	\$304
Non-Personnel Expenses	\$3,167	\$3,154	(\$13)
Total Operating Expenses:	\$19,645	\$19,963	\$291
Transfers:			
Transfers to Capital Budget	\$805	\$682	\$133
Transfers to Operating and Capital Reserve Fund	\$0	\$0	\$0
Total Transfers:	\$805	\$682	\$133
Operating Balance:			\$60

FY20 Operating Revenue, Expenses, and Transfers:

Year to Date as of June 30, 2020: PRELIMINARY*:

100% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
Revenue:	\$57,414	\$56,758	\$658
Operating Expenses:			
Personnel Expenses	\$41,711	\$42,255	\$544
Non-Personnel Expenses	\$9,502	\$9,463	(\$39)
Total Operating Expenses:	\$51,213	\$51,718	\$505
Transfers:			
Transfers to Capital Budget	\$2,244	\$2,369	(\$125)
Transfers to Operating and Capital Reserve Fund	\$3,958	\$2,670	\$1,288
Total Transfers:	\$6,202	\$5,039	\$1,163
Operating Balance:	\$0	\$0	\$0

5.12



SANTA CRUZ METRO

*Reflects Actual Data for Qtr. 1 of FY20 and Projections for Qtrs. 2, 3 & 4.

Questions

5.13



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SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
 FY19 PRELIMINARY SCHEDULE OF RESERVE ACCOUNT BALANCES-AWAITING FINAL AUDIT
 AS OF 6/30/19

Fund Title	Explanation and Use:	Post Audit Balance at 6/30/18	ESTIMATED Additions/ (Withdrawals) in FY19	ESTIMATED Available Balance at 6/30/19	Board Adopted Minimum or Target Level	% Funded	Surplus / (Deficient)	Suggested Guidelines:	Board Adopted Recommendation:
Operating and Capital Reserve Fund (formerly - Operating / Capital Reserves)	Liquid and unrestricted assets that an organization can use to support its operations in the event of an unanticipated loss of revenue or increase in expenses. Includes Alternative Fuel Tax Rebates transferred from the Operating Budget and any excess revenues above actual expenses	\$ 2,322,517	\$ 1,952,017	\$ 4,274,534	N/A	N/A	N/A	Any use of Operating and Capital Reserves above CEO executive authority will be brought to the BOD for consideration. To be used as the local match for capital grants.	There is no Board Adopted Minimum Balance established; this fund shall not be used to support recurring operating expenditures.
Operations Sustainability Reserve Fund (formerly - Operating Reserves)	Funds set aside to protect the organization's essential services and funding requirements during periods of economic downturn or natural disasters. Target = two month's operating expenses (Payroll and Accounts Payable).	\$ 7,500,000	\$ -	\$ 7,500,000	\$ 7,500,000	100%	\$ -	GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.	Fund Operations Sustainability Reserve Fund to target level that equals two (2) months of the average operating expenses for the most current fiscal year's budget, to be adjusted annually through the budget process.
Cash Flow Reserve Fund (formerly - Cash Flow Reserves)	Funds set aside to "cash flow" capital and/or operating expenses incurred before receiving reimbursements from various funding sources (Annual FTA 5307 (& STIC), STA, etc).	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 3,000,000	100%	\$ -	Staff will manage flexibility of Cash Flow Reserve Fund, according to project levels and capital needs as they fluctuate from year to year.	Fund Cash Flow Reserve Fund to minimum or target levels; set annually through the budget process.
Workers Compensation Reserve Fund (formerly - Workers Compensation Reserves)	Funds set aside to finance the (discounted) long term portion of workers' compensation liability, as of the end of the fiscal year.	\$ 3,495,798	\$ (1,390,064) *	\$ 2,105,734	\$ 2,105,734	100%	\$ -	GASB #10 requires Santa Cruz METRO to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported workers' compensation claims.	Fund Workers' Comp Reserves to minimum or target levels; a bi-annual study of potential liability areas and risk shall be the basis for determining minimum reserves.
Liability Insurance Reserve Fund (formerly - Liability Insurance Reserves)	Funds set aside to pay the cost of outstanding liability and physical damage claims + proposed employment practices liability claims. (Self Insured Retention - SIR - \$250K each program)	\$ 767,262	\$ -	\$ 767,262	\$ 767,262	100%	\$ (0)	GASB #10 requires Santa Cruz METRO to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported liability and physical damage claims.	Fund Liability Insurance Reserves to minimum or target levels; calculated annually based on the 5-year rolling average of outstanding claims at fiscal year end + \$250K each SIR.
		\$ 17,085,577	\$ 561,953	\$ 17,647,530			\$ (0)		
	* The significant decrease in the Workers' Comp 'Board Adopted Minimum or Target Level' from last year is driven primarily by favorable (claims) loss development and a reduction in the total number of open claims								

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DATE: November 8, 2019
TO: Finance, Budget & Audit Committee
FROM: Angela Aitken, CFO
SUBJECT: CONSIDERATION OF CHANGES TO THE RESERVE FUND POLICY

I. RECOMMENDED ACTION

That the Finance, Budget and Audit Standing Committee consider and recommend changes to the Board of Directors the proposed changes to the Reserve Fund Policy

II. SUMMARY

- At the January 23, 2015 Board of Directors (Board) meeting, the Board gave staff direction to create a formal policy on Reserve Funds that would ensure strong fiscal management.
- Santa Cruz Metropolitan Transit District (METRO) has created an Administrative Code to codify policies enacted by the Board.
- At the October 23, 2015 Board meeting, the Board adopted the current Reserve Fund Policy within the Administrative Code.
- Staff recommends that the Board adopt the proposed clarifying changes to the Reserve Fund Policy within the Administrative Code, so that it reflects the current responsibilities and practices of the Finance Department in relation to the use and replenishment of the Reserve Funds.
- Staff recommends that the Board change the Operations Sustainability Reserve Fund target minimum balance from two (2) months to three (3) months.

III. DISCUSSION/BACKGROUND

During FY15, the METRO Board was presented with, and discussed, the impending “Fiscal Cliff” and Structural Deficit via numerous workshop presentations to the Board. At the November 14, 2014 meeting, the Board received recommendations on how each reserve “bucket” should be established and funded. CEO, Alex Clifford, and CFO, Angela Aitken, talked through the various reserve “buckets”, how they were each used, guidelines that were in place to follow, the funding status and deficit status of each “bucket”, industry policy or guidelines, and then presented a recommendation on how and to what level each reserve “bucket” should be funded.

The Board came to a consensus on these Reserve Funds and was presented with the individual fund agreements via a presentation to the Board at the January 23,

2015 meeting. Direction was also given during the November 14, 2014 meeting to create a formal Reserve Funds Policy, with an objective to establish sound formal, fiscal reserve guidelines that will ensure strong fiscal management, guide future agency decisions, maintain the fiscal stability of the organization, and place the agency in a position to better respond to unanticipated fiscal challenges and risk.

The purpose of the Reserve Fund Policy for METRO is to ensure the long-term economic stability of the agency. A key element of prudent financial planning is to ensure there are sufficient reserves to cover current operating and capital cash flows. Additionally, good fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen disruptions in cash flow. METRO will, at all times, strive to have sufficient funding available to meet its operating and capital obligations.

Based on an analysis of “best practices” and quantitative standards, this policy strives to maintain a stable and positive financial position for the foreseeable future. Moreover, it provides guidelines to staff in planning and directing the day-to-day financial affairs and in developing recommendations to the Board.

Properly designed guidelines send a positive signal to the community, our customers, our stakeholders, rating agencies, and regulatory agencies that METRO’s Board is committed to the agency’s long-term financial health, stability and viability.

This policy has helped provide the agency with unrestricted funds with which to stabilize the agency’s finances and position it to better absorb economic downturns, unforeseen disruptions in cash flow, meet generally accepted financial practices, and fund the local match for state and federal capital grants.

The goal of this policy is to establish adequate reserve funds through sound fiscal reserve guiding principles that will guide agency staff when making financial recommendations to the Board. If the agency chooses to borrow funds in the future, a fiscally sound Reserve Fund Policy will contribute to a positive credit rating. A better credit rating results in a lower cost of borrowing.

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 METRO is bound to honor constraints on the specific purposes for which amounts can be spent:

- a. **Nonspendable** fund balance (not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale).

- b. **Restricted** fund balance (extremely enforceable limitations on use, such as debt covenants, grantors, contributors, or laws and regulations of other governments).
- c. **Committed** fund balance (constrained to specific purposes by a formal action of the Board, such as an ordinance, resolution, or policy).
- d. **Assigned** fund balance (limited to the Board's intent to be used for a specific purpose, but not Restricted or Committed).
- e. **Unassigned** fund balance (residual net resources, either positive or negative, in excess of the other four fund balance components). Unassigned amounts are available for any purpose with Board approval.

All of METRO's reserve funds are classified as committed fund balances and will be funded with surplus or "carryover" of unrestricted operating funds.

Adequate reserve funds are built over time. The goal of maintaining adequate reserves is to ensure that there are appropriate levels of working capital in the reserve 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, and to ensure continuity of service.

Reserve funds may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as payment of grant funded expenses prior to being reimbursed by the awarding grant entity, matching dollars for grants, capital and operating expenditures that might not otherwise have a grant funding source or qualify for grant funding.

METRO's reserve funds are as follows currently:

- **Operations Sustainability Reserve Fund**
 - a. Classified as a committed fund balance
 - b. Sometimes referred to as the "rainy day fund"
 - c. Target minimum is equal to two months of average operating expenses for the most current fiscal year's budget
 - d. The target minimum is \$7.5M
 - e. Should not be used for recurring expenses

- **Cash Flow Reserve Fund**
 - a. Classified as a committed fund balance
 - b. Target minimum amount will be set annually through the budget process, and is calculated annually based on a review of all current reimbursable grants, a revenue flow analysis, and invoice payments.
 - c. The Cash Flow Reserve Fund target minimum is \$3M
 - d. Should not be used for recurring expenses

- **Operating and Capital Reserve Fund**
 - a. Classified as an unassigned fund balance
 - b. Funded by carryover, alternative fuel tax credits, excess sales tax revenue, and other fungible revenues
 - c. No target minimum amount designated
 - d. The Operating and Capital Reserve Fund has no target minimum
 - This fund would be a source for various Capital purchases and for use as local match for State and Federal grants
 - a. Should avoid using for recurring expenses

- **Workers' Compensation Reserve Fund**
 - a. Classified as a committed fund balance
 - b. Target minimum amount will be based on a bi-annual study of potential liability areas and risk
 - c. The Workers' Compensation Reserve Fund target minimum is \$2.1M
 - d. Should not be used for recurring expenses

- **Liability Insurance Reserve Fund**
 - a. Classified as a committed fund balance
 - b. Target minimum amount 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
 - c. The Liability Insurance Reserve Fund target minimum is \$767K
 - d. Should not be used for recurring expenses

All reserve funds will be recorded in the financial records as Board-designated reserves, included in the annual fiscal year budget, and broken out by the funds reflected in this policy. Reserve funds will be funded and available in cash or cash equivalent funds and will be maintained with the general cash accounts of the organization.

The 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.

If the reserve fund cannot be replenished by the next annual fiscal year budget, a repayment plan not to exceed three years will be proposed for Board consideration. The Finance Department shall maintain Board-approved policies which may contain provisions that affect the creation, sufficiency, and management of the reserve funds.

This Policy is reviewed every other year, at minimum, by the Finance Department, or sooner if warranted by internal or external events or changes. The following clarification modifications to the Reserve Fund Policy are recommended to the Board of Directors by Staff:

- 1.7.1010 - Additional Definitions and Acronyms
- 1.7.206 - Purpose and Applicability
- 1.7.401 - Operations Sustainability Reserve Fund
- 1.7.502 - Cash Flow Reserve Fund, Board Policy
- 1.7.1102 - Administration of Policy

Staff is also recommending changing the Operations Sustainability Reserve Fund target minimum balance from two months to three months. This would change the target minimum from \$7.5M to \$11.25M.

By a 2/3 vote of 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.

METRO has created an Administrative Code to codify policies enacted by the Board. Staff recommends that the Board adopt the revised Reserve Fund Policy within the Administrative Code, so that it reflects the current responsibilities and practices of the Finance Department, in relation to the use and replenishment of the reserve funds.

IV. FINANCIAL CONSIDERATIONS/IMPACT

Revising the Reserve Fund Policy, via the Administrative Code, will give guidance on how revenues above reoccurring expenses will be placed back into the reserve funds.

Maintaining solid reserves for the future is a key to METRO producing balanced budgets and being prepared for opportunities of growth, technological advancement in the future, and mitigation of financial risk.

V. ALTERNATIVES CONSIDERED

- Do nothing is an alternative but not recommended. These changes are needed so that the Reserve Fund Policy reflects the current responsibilities and practices of the Finance Department, in relation to the use and replenishment of the reserve funds.

VI. ATTACHMENTS

Attachment A: Resolution adopting Chapter 7 to Title I of the Santa Cruz METRO Administrative Code

Exhibit A: Reserve Fund Policy – Redline Version

Exhibit B: Reserve Fund Policy – Clean Version

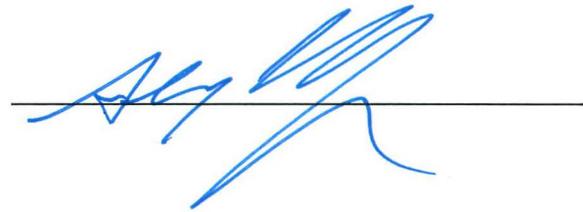
Prepared by: Angela Aitken, CFO

VII. APPROVALS:

Approved as to fiscal impact:
Angela Aitken, CFO



Alex Clifford, CEO/General Manager



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Attachment A



BEFORE THE BOARD OF DIRECTORS OF THE SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

Resolution No.
On the Motion of Director:
Duly Seconded by Director:
The Following Resolution is Adopted:

A RESOLUTION OF THE SANTA CRUZ METROPOLITAN TRANSIT DISTRICT ADOPTING CHAPTER 7 TO TITLE I OF THE SANTA CRUZ METRO ADMINISTRATIVE CODE

WHEREAS, it is in the interest of the Santa Cruz Metropolitan Transit District to have a Reserve Fund Policy; and

WHEREAS, on October 23, 2015 meeting, the Board of Directors created a formal policy on Reserves that will ensure strong fiscal management; and

WHEREAS, the provisions of the policy reflect that it can be amended, revised, or temporarily waived by a Board vote of two-thirds, for an emergency funding situation or temporary operating budget funding gap,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SANTA CRUZ METROPOLITAN TRANSIT DISTRICT, that it hereby resolves, determines and orders as follows:

1. That the revised Reserve Fund policy attached hereto as Exhibit A, and presented to the Board of Directors is hereby adopted.

PASSED AND ADOPTED this 8th Day of November, 2019 by the following vote:

AYES: Directors -

NOES: Directors –

Attachment A

Resolution No. _____
Page 2 of 2

ABSTAIN: Directors -

ABSENT: Directors -

ED BOTTORFF
Chairperson

ATTEST:

ALEX CLIFFORD
CEO/General Manager

APPROVED AS TO FORM:

JULIE SHERMAN
District Counsel

Exhibit A - REDLINE

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

ADMINISTRATIVE CODE

TITLE I – ADMINISTRATION

CHAPTER 7

RESERVE FUND POLICY

Table of Contents:

Article I	General Requirements
Article II	Purpose and Applicability
Article III	Goals
Article IV	Operations Sustainability Reserve Fund
Article V	Cash Flow Reserve Fund
Article VI	Operating and Capital Reserve Fund
Article VII	Workers' Compensation Reserve Fund
Article VIII	Liability Insurance Reserve Fund
Article IX	Funding and Accounting for Reserve Funds
Article X	Reporting, Monitoring and Replenishing of Reserves
Article XI	Administration of Policy
Article XII	Changes/Waivers to the Reserve Fund Policy

Article 1

General Requirements

Definitions

- §1.7.101** 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

Exhibit A - REDLINE

extent to which Santa Cruz METRO is bound to honor constraints on the specific purposes for which amounts can be spent:

The following capitalized words and phrases whenever used in this Chapter shall be construed as defined below:

- §1.7.102** BOARD shall mean the Board of Directors of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO).
- §1.7.103** GENERAL MANAGER shall mean the Chief Executive Officer (CEO) of Santa Cruz METRO appointed by the Board of Directors.
- §1.7.104** SANTA CRUZ METRO shall mean the Santa Cruz Metropolitan Transit District as established and operated under Part 10, Division 10 of the *California Public Utilities Code*.
- §1.7.105** NONSPENDABLE fund balance (not in spendable form such as inventories, prepaids, long-term receivables, or non-financial assets held for resale).
- §1.7.106** RESTRICTED fund balance (extremely enforceable limitations on use such as debt covenants, grantors, contributors, or laws and regulations of other governments).
- §1.7.107** COMMITTED fund balance (constrained to specific purposes by a formal action of the Board such as an ordinance, resolution, or policy).
- §1.7.108** ASSIGNED fund balance (limited to the Board's intent to be used for a specific purpose, but not Restricted or Committed).
- §1.7.109** UNASSIGNED fund balance (residual net resources, either positive or negative, in excess of the other four fund balance components). Unassigned amounts are available for any purpose with Board approval.

§1.7.1010 Additional Definitions and Acronyms

CARRYOVER – End of Fiscal Year favorable variance

FTA - Federal Transit Agency Administration

GASB – Governmental Accounting Standards Board

STA – State Transit Assistance

STIC –Small Transit Intensive Cities Program (FTA)

STRUCTURAL DEFICIT - a fiscal budget situation in which recurring expenses exceed recurring revenues.

UNRESTRICTED FUNDS – funds available for any operating or capital expense use.

Exhibit A - REDLINE

Article II

Purpose and Applicability

- §1.7.201** As a public agency, Santa Cruz METRO shall provide safe, reliable fiscally responsible service to our customers. To that end, a policy to fund and spend reserves is being presented. The purpose of the Reserve Fund Policy is to ensure the long-term economic stability of the agency.
- §1.7.202** This policy will establish formal fiscal reserve guidelines that will ensure strong fiscal management, guide future agency decisions, maintain the fiscal stability of the organization, and place the agency in a position to better respond to unanticipated fiscal challenges and risks as they occur.
- §1.7.203** A key element of prudent financial planning is to ensure there are sufficient reserves to cover current operating and capital cash flows. Additionally, good fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen disruptions in cash flow. Santa Cruz METRO will at all times, strive to have sufficient funding available to meet its operating and capital obligations.
- §1.7.204** Based on an analysis of “best practices” and quantitative standards, this policy strives to maintain a stable and positive financial position for the foreseeable future. Moreover, it provides guidelines to staff in planning and directing the day-to-day financial affairs, and in developing the annual two-year budget.
- §1.7.205** Properly designed guidelines send a positive signal to the community, our customers, our stakeholders, rating agencies, and regulatory agencies, that the Board of Directors (Board) is committed to the agency’s long-term financial health, stability, and viability.
- §1.7.206** This policy will help provide the agency with unrestricted funds with which to stabilize the agency’s finances, and position it to better absorb economic downturns, unforeseen disruptions in cash flow, meet generally accepted financial practices, and fund the local match for state and federal capital grants- and miscellaneous emergency capital purchases.

Article III

Goals

- §1.7.301** The goal of this policy is to establish adequate Reserve Funds through sound fiscal reserve guiding principles that will guide agency staff when making financial recommendations to the Board.
- §1.7.302** If the agency chooses to borrow funds in the future, a fiscally sound Reserve Fund Policy will contribute to a positive credit rating. A better credit rating results in a lower cost of borrowing.

Exhibit A - REDLINE

Article IV

Operations Sustainability Reserve Fund

- §1.7.401** The Operations Sustainability Reserve Fund is an unrestricted 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 ~~will ensure~~ intends to provide continuity of service (on a short-term basis), regardless of disruptions in cash flow, and is considered working capital to be used to fund current non-recurring expenses as needed without borrowing. This fund is sometimes referred to as a “rainy day fund”.
- §1.7.402** The Operations Sustainability Reserve Fund is not intended to replace a permanent loss of funds or fill an ongoing budget gap such as a structural deficit. It is the intention of Santa Cruz METRO that when the Operations Sustainability Reserve Fund is used, they be used on a short-term basis and replenished within a reasonably short period of time (i.e. one fiscal year).
- §1.7.403** **Board Policy** - The Operations Sustainability Reserve Fund is defined as a designated fund set aside by action of the Board of Directors, and is classified as a committed fund balance. The minimum amount to be designated as Operations Sustainability Reserve will be established in an amount sufficient to cover all operating expenses for a set period of time, measured in months. The minimum Operations Sustainability Reserve Fund shall be equal to two (2) months of the average operating expenses for the most current fiscal year’s budget, and will be adjusted annually through the budget process. The calculation of average monthly operating costs includes, but is not limited to all recurring, operating expenses such as salaries and benefits, overhead, travel and training, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The Board will attempt to fully fund the Operations Sustainability Reserve Fund within three-years of the adoption of this policy. The Operations Sustainability Reserve Fund shall not be used to support recurring operating expenditures.

Article V

Cash Flow Reserve Fund

- §1.7.501** The Cash Flow Reserve Fund is an unrestricted fund intended to provide funds to protect the agency’s ability to meet payroll and pay its bills through the ebbs and flows of revenue flows. Since some grants are awarded on a reimbursable basis, this will also include payment of grant-funded expenses prior to being reimbursed by the awarding grant entity.

Exhibit A - REDLINE

§1.7.502 **Board Policy** - The Cash Flow Reserve Fund is defined as a designated fund set aside by action of the Board of Directors, and is classified as a committed fund balance. The target minimum amount ~~to be~~ designated ~~to the~~ as Cash Flow Reserve Fund will be ~~set reviewed~~ annually ~~through~~ during the budget process. Recommended changes to the target minimum will be communicated when the Schedule of Reserve Account Balances is presented to the Finance, Budget, and Audit Committee and the Board. ~~The target minimum amount~~ ~~and~~ is calculated ~~annually~~ based on a review of all current reimbursable grants, a revenue flow analysis, and invoice payments. In tight or difficult financial times, a fully funded Operations Sustainability Reserve Fund can double as the Cash Flow Fund. The Board will attempt to fully fund the Cash Flow Reserve Fund within three-years of the adoption of this policy. The Cash Flow Reserve Fund shall not be used to support recurring operating expenditures.

Article VI

Operating and Capital Reserve Fund

§1.7.601 Maintaining the Santa Cruz METRO system in a state-of-good-repair is paramount to the stability and success of Santa Cruz METRO. A system is in a state-of-good-repair when all maintenance is performed at scheduled intervals; all facilities are properly maintained and without deferred maintenance; and 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 match for grants, used for capital and operating expenditures that might not otherwise have a grant-funding source or qualify for grant funding and to cover certain unanticipated operating expenses that cannot be capitalized. Use of the Operating and Capital Reserve Fund shall be limited to one-time expenditures and is not intended for recurring commitments.

§1.7.602 **Board Policy** - The Operating and Capital Reserve Fund is defined as a designated fund set aside by action of the Board of Directors, and is classified as an unassigned fund balance. There is no target minimum amount to be designated for the Operating and Capital Reserve Fund since its funding source comes from what might generally be considered unanticipated surpluses such as fiscal year budget surplus (carryover) and unrestricted funds such as sales tax, farebox revenues, leases, advertising, and fuel tax credit, just to name a few examples. The Operating and Capital Reserve Fund shall not be used to support recurring operating expenditures.

§1.7.603 The CEO is authorized to exercise the CEO Board authorized authority of up to \$50,000 to allocate these funds for the uses noted in this policy. All uses of this fund in excess of \$50,000 must be approved by the Board.

Exhibit A - REDLINE

Article VII

Workers' Compensation Reserve Fund

- §1.7.701** The Workers' Compensation Reserve Fund is intended to provide funds to meet expenses associated with Santa Cruz METRO's self-insurance programs, losses that exceed insurance coverage, as well as deductible costs or losses not covered by insurance. The Workers' Compensation Reserve Fund shall be maintained at a level that will adequately indemnify the agency against loss. A bi-annual study of potential liability areas and risk shall be the basis for determining minimum reserves.
- §1.7.702** **Board Policy** - The Workers' Compensation Reserve Fund is defined as a designated fund set aside by action of the Board of Directors, and is classified as a committed fund balance. The Workers' Compensation Reserve Fund will be calculated bi-annually after an actuarial review has been performed. Annually, the Workers' Compensation Reserve Fund level will be included in the annual fiscal budget process. The Board will attempt to fully fund the Workers' Compensation Reserve Fund within two years of the adoption of this policy. The Workers' Compensation Reserve fund shall not be used to support recurring operating expenditures.

Article VIII

Liability Insurance Reserve Fund

- §1.7.801** The Liability Insurance Reserve Fund is intended to provide funds to meet Santa Cruz METRO's self-insurance programs, liability, insurance deductibles, self-insurance minimums, the first layer of a multi-layered insurance program, and to cover exposure where no insurance exists. This Fund is also used when exposure or losses exceed insurance coverage.
- §1.7.802** **Board Policy** - The Liability Insurance Reserve Fund is defined as a designated fund set aside by action of the Board of Directors, and is classified as a committed fund balance. The Liability Insurance 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. The Liability Insurance Reserve Fund balance will be approved by the Board through the annual fiscal budget process. The Board will attempt to fully fund the Liability Insurance Reserve Fund within the next fiscal year budget following the adoption of this policy. The Liability Insurance Reserve Fund shall not be used to support recurring operating expenditures.

Exhibit A - REDLINE

Article IX

Funding and Accounting for Reserve Funds

- §1.7.901** All Reserve Funds are funded with surplus or “carryover” of unrestricted operating and capital funds.
- §1.7.902** Reserve Funds will be recorded in the financial records as Board-Designated reserves, included in the annual fiscal year budget, and broken out by the funds reflected in this policy. Reserve Funds will be funded and available in cash or cash equivalent funds. Reserve Funds will be maintained with the general cash accounts of the organization.

Article X

Reporting, Monitoring and Replenishing of Reserves

- §1.7.1001** The 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.
- §1.7.1002** 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 XI

Administration of Policy

- §1.7.1101** The Finance Department shall maintain Board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Funds.
- §1.7.1102** The Finance Department shall review this policy every other year, at a minimum, or sooner if warranted by internal or external events or changes. Modifications to the Reserve Fund Policy will be recommended by the Finance Department to the Finance, Budget and Audit Committee, and ultimately the Board, ~~of Directors.~~

Article XII

Changes/Waivers to the Reserve Fund Policy

- §1.7.1201** By a 2/3 vote of 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.

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SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

ADMINISTRATIVE CODE

TITLE I – ADMINISTRATION

CHAPTER 7

RESERVE FUND POLICY

Table of Contents:

Article I	General Requirements
Article II	Purpose and Applicability
Article III	Goals
Article IV	Operations Sustainability Reserve Fund
Article V	Cash Flow Reserve Fund
Article VI	Operating and Capital Reserve Fund
Article VII	Workers' Compensation Reserve Fund
Article VIII	Liability Insurance Reserve Fund
Article IX	Funding and Accounting for Reserve Funds
Article X	Reporting, Monitoring and Replenishing of Reserves
Article XI	Administration of Policy
Article XII	Changes/Waivers to the Reserve Fund Policy

Article 1

General Requirements

Definitions

- §1.7.101** 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

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extent to which Santa Cruz METRO is bound to honor constraints on the specific purposes for which amounts can be spent:

The following capitalized words and phrases whenever used in this Chapter shall be construed as defined below:

- §1.7.102** BOARD shall mean the Board of Directors of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO).
- §1.7.103** GENERAL MANAGER shall mean the Chief Executive Officer (CEO) of Santa Cruz METRO appointed by the Board of Directors.
- §1.7.104** SANTA CRUZ METRO shall mean the Santa Cruz Metropolitan Transit District as established and operated under Part 10, Division 10 of the *California Public Utilities Code*.
- §1.7.105** NONSPENDABLE fund balance (not in spendable form such as inventories, prepaids, long-term receivables, or non-financial assets held for resale).
- §1.7.106** RESTRICTED fund balance (extremely enforceable limitations on use such as debt covenants, grantors, contributors, or laws and regulations of other governments).
- §1.7.107** COMMITTED fund balance (constrained to specific purposes by a formal action of the Board such as an ordinance, resolution, or policy).
- §1.7.108** ASSIGNED fund balance (limited to the Board's intent to be used for a specific purpose, but not Restricted or Committed).
- §1.7.109** UNASSIGNED fund balance (residual net resources, either positive or negative, in excess of the other four fund balance components). Unassigned amounts are available for any purpose with Board approval.
- §1.7.1010** **Additional Definitions and Acronyms**

CARRYOVER – End of Fiscal Year favorable variance

FTA - Federal Transit Administration

GASB – Governmental Accounting Standards Board

STA – State Transit Assistance

STIC –Small Transit Intensive Cities Program (FTA)

STRUCTURAL DEFICIT - a fiscal budget situation in which recurring expenses exceed recurring revenues.

UNRESTRICTED FUNDS – funds available for any operating or capital expense use.

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Article II

Purpose and Applicability

- §1.7.201** As a public agency, Santa Cruz METRO shall provide safe, reliable fiscally responsible service to our customers. To that end, a policy to fund and spend reserves is being presented. The purpose of the Reserve Fund Policy is to ensure the long-term economic stability of the agency.
- §1.7.202** This policy will establish formal fiscal reserve guidelines that will ensure strong fiscal management, guide future agency decisions, maintain the fiscal stability of the organization, and place the agency in a position to better respond to unanticipated fiscal challenges and risks as they occur.
- §1.7.203** A key element of prudent financial planning is to ensure there are sufficient reserves to cover current operating and capital cash flows. Additionally, good fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen disruptions in cash flow. Santa Cruz METRO will at all times, strive to have sufficient funding available to meet its operating and capital obligations.
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Article IX

Funding and Accounting for Reserve Funds

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Article X

Reporting, Monitoring and Replenishing of Reserves

- §1.7.1001** The 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.
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Administration of Policy

- §1.7.1101** The Finance Department shall maintain Board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Funds.
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Changes/Waivers to the Reserve Fund Policy

- §1.7.1201** By a 2/3 vote of 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.

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**Pension (UAL)
and
Retiree Medical (OPEB)
Liabilities
Recommendations to Reduce Liabilities**

Santa Cruz METRO Board of Directors

November 8, 2019

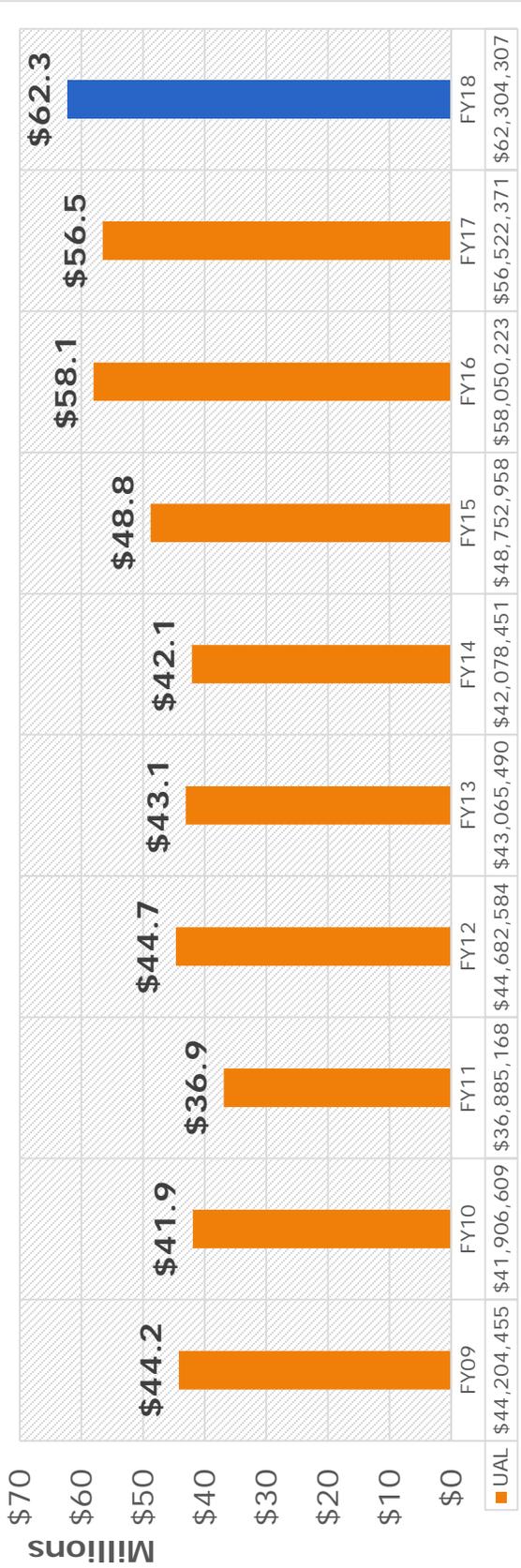
Angela Aitken, Chief Financial Officer

Overview of Today's Presentation

- Pension Liability (UAL): Overview and Updates
- Retiree Medical Liability (OPEB): Overview and Updates
- What can we do to reduce the liabilities?
- What have we done so far to reduce the liabilities?
- What do we recommend to further reduce the liabilities?
- Questions

Pension Liability (UAL): Overview & Updates

(as per CalPERS Actuarial Valuation Report as of June 30, 2018)



	June 30, 2017	June 30, 2018
1. Present Value of Projected Benefits	\$197,740,176	\$211,046,469
2. Entry Age Normal Accrued Liability	\$173,211,950	\$185,503,758
3. Market Value of Assets (MVA)	\$116,689,579	\$123,199,451
4. Pension Liability (UAL) (2-3) *	\$56,522,371	\$62,304,307
5. Funding Ratio (3/2)	67.4%	66.4%

* UAL is the gap between funds available and funds needed for retiree benefits.



Employer Contributions: Normal Cost & UAL Santa Cruz METRO: Projections FY21 – FY26 (as per CalPERS Actuarial Valuation Report as of June 30, 2018)

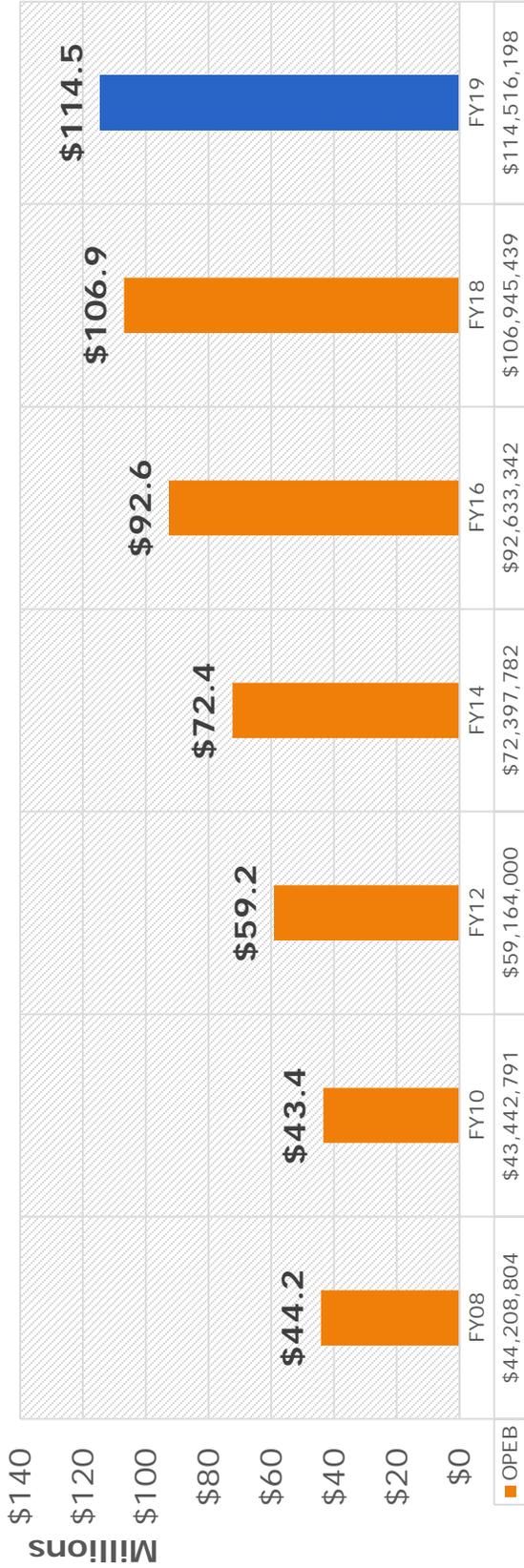
	Required Contribution	Projected Future Employer Contributions (Assumes 7.00% Return for Fiscal FY19) *				
Fiscal Year	FY21	FY22	FY23	FY24	FY25	FY26
Normal Cost (% of Payroll)	10.448%	10.4%	10.4%	10.4%	10.4%	10.4%
Normal Cost \$ Payment (A)	\$2,071,638	\$2,118,829	\$2,177,097	\$2,236,967	\$2,298,484	\$2,361,692
UAL Payment (B)	\$4,586,794	\$5,052,000	\$5,437,000	\$5,674,000	\$5,955,000	\$5,837,000
Projected Payroll (2.75% growth)	\$19,828,082	\$20,373,354	\$20,933,622	\$21,509,297	\$22,100,803	\$22,708,574
Total Contribution (Illustrative only based on projected payroll) (A+B)	\$6,658,432	\$7,170,829	\$7,614,097	\$7,910,967	\$8,253,484	\$8,198,692
Total Contribution as a % of Payroll	33.6%	35.2%	36.4%	36.8%	37.4%	36.2%



*The Preliminary Rate of Return for FY19 is **6.7%**.

Retiree Medical Liability (OPEB): Overview & Updates

(as of June 30, 2019)



METRO – OPEB Funding Status:

	as of June 30, 2018	as of June 30, 2019
1. Total OPEB Liability (TOL)	\$106,945,439	\$114,516,198
2. Fiduciary Net Position (Value of Trust Assets) (Create an Irrevocable Trust)	\$0	\$0
3. Net Retiree Medical Liability OPEB Liability * (NOL) (1 - 2)	\$106,945,439	\$114,516,198

* Net OPEB Liability is the gap between funds available and funds needed for retiree benefits.



What can we do to reduce the liabilities?

- Things we have done so far to reduce the liabilities:
 - 😊 Understand the two liabilities and make them visible to the public: **DONE**
 - 😊 Approve budget plans to set aside funds to reduce the liabilities: **DONE**
 - 😊 Prepay the Pension (UAL) portion for the Fiscal Year, before July 31st: **DONE**
 - 😊 Closely monitor and control personnel costs: **DONE**
- What do we recommend to further reduce our liabilities:
 - Make Additional Discretionary Payments (ADPs) toward paying down UAL
 - Work with CalPERS to establish Fresh Start UAL Amortization
 - Establish and prefund an Irrevocable Section 115 Trust for UAL and OPEB
 - Contract with an actuarial to run various financial scenarios

What have we done, so far?

Understand the Liabilities and Make them Visible to the Public: Presentations to Board Members, Staff and Public at Finance Committee and Board Meetings in 2019

Approve Budget Plans to Set Aside Funds to Reduce the Liabilities: Board Approved (June 2019) transfers of \$2M*/Year to a dedicated reserve fund

(*The exact amount of the transfers depends on the availability of excess funds in the operating budget at year-end, unplanned / unbudgeted expense could reduce /eliminate the transfers)

Prepay the Pension Liability UAL Portion for the Year in FY20:
\$4,044,788 Paid in July 2019
= \$144,064 Savings for the Year

Closely Monitor and Control

Personnel Costs:

Average Labor Cost Increase for the last 5 Years (FY15-FY19) = **0.4%**;

As of Fall Negotiations with Unions:

- Negotiated **5% employee contribution for any medical plan** for SEIU and SMART FR, effective Jan 2021; **3%** for SMART PC, effective Jan 2022;
- Negotiated **increase in the quarterly payments** for those METRO employees **waiving our medical insurance program** (from \$300 to \$1,000/Qtr.)



What Do We Recommend?

Make Additional Discretionary Pension Liability (UAL) Payments:

- ✓ Payments can be made at a dedicated amount
- ✓ Allows for budgeting flexibility
- ✓ Can dedicate one-time funding or new revenue
- ✓ **Any additional payments made to the principal reduces the amount of interest paid in the future**

\$1M paid today reduces the amount of total interest paid by **\$1.6M**

\$1M paid every year for the next five years = **\$6.8M** of saved interest payments (as per CalPERS actuarial estimate based on our 2017 Valuation Report)

Fresh Start (Full or Partial) Pension Liability (UAL) Amortization:

- ✓ Must pay off faster than existing amortization schedule
- ✓ Create new minimum payment
- ✓ Significant long-term savings
- ✓ **Irrevocable (Full)**
- ✓ No Irrevocable election (Partial)

15 Year Amortization = \$16M Estimated Savings

10 Year Amortization = \$32M Estimated Savings
(as per CalPERS Annual Valuation Report as of June 30, 2018)

OR



What Do We Recommend?

Establish and Pre-Fund Irrevocable Section 115 Trusts for Pension (UAL) and Retiree Medical (OPEB):

- ✓ Contributions are restricted and cannot be used for other purposes
- ✓ Improved Credit Rating
- ✓ Reduction of Net Pension and Retiree Medical Liabilities
- ✓ There are costs associated with funding and managing a trust

Contract with an Actuarial to Run Various Financial Scenarios to Help Reduce Pension and Retiree Medical

Liabilities:

- ✓ They would incorporate changes to our Employee medical benefits currently offered
- ✓ They would analyze:
 - ✓ benefits of additional contributions to both liabilities
 - ✓ how those contributions are implemented to achieve maximum savings
 - ✓ benefits of creating the Trusts to pay towards both liabilities

Questions





DATE: November 8, 2019
TO: Finance, Budget and Audit Standing Committee
FROM: Barrow Emerson, Planning & Development Director
SUBJECT: APPROVAL OF NEW CAPITAL PROJECTS AND UPDATED 10-YEAR UNFUNDED CAPITAL NEEDS LIST

I. RECOMMENDED ACTION

That the Finance, Budget and Audit Standing Committee receive and file an updated 10-Year Unfunded Capital Projects Needs List and recommend that the Board of Directors approve the new capital project commitments

II. SUMMARY

- Santa Cruz Metropolitan Transit District (METRO) has an extensive backlog of needed capital improvements. These include vehicles, facilities and Information Technology (IT) tools which it needs in order to maintain the agency's facilities and equipment in a state of good repair and to meet its operational needs.
- METRO maintains and regularly updates a 10-Year Unfunded Capital Project Needs List, last presented to the Board as part of the FY20 budget adopted on June 28, 2019.
- In support of the METRO 10-Year Strategic Business Plan, three projects and their funding sources are identified as the most critical, within financial capacity, to move the agency forward towards a sustainable future.
- Pacific Station - \$4 million, over four years, from the Long Range Bus Replacement Fund toward the redevelopment of the facility in conjunction with the City of Santa Cruz.
- Bus Replacement – Up to \$3.5 million from the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) to purchase a minimum of four replacement Compressed Natural Gas (CNG) buses.
- New METRO-owned ParaCruz operating facility - \$2.3 million from Federal Alternative Fuel Tax receipts.
- With the new commitment to Pacific Station and a major procurement of 14 lease-to-purchase CNG buses, the Board adopted a policy of committing \$3 million annually to bus replacement. This commitment will need to remain in place for at least the next six years to fund the 14 new buses.

- In addition, METRO receives approximately \$550,000 annually from the Federal Transit Administration (FTA) 5339a Buses and Bus Facilities Formula Program. For the FY20 budget cycle, we propose funding the replacement of the Golf Club Drive Maintenance Facility roof for \$450,000 and to rehabilitate and perform preventative maintenance on the Judy K. Souza Operations Base (JKS) bus washer facility for \$100,000.
- Lastly, METRO has a one-time carryover balance of \$4.3 million in funding from the FY19 budget year. It is recommended that these one-time funds be allocated to the following high priority projects in Table 1 from the Unfunded Capital Projects Needs List:

Table 1

Completion of Cameras on Buses (6 buses)	\$100,000
JKS Upper Security Gates	\$100,000
Completion of JKS ZEB Facility Yard-Charging Infrastructure	\$300,000
Miscellaneous Capital Contingency	\$800,000
Maintenance Yard Security Hardening and Expanded Parking	\$1,000,000
Bus Replacement Local Match Fund	\$2,000,000
Total	\$4,300,000

- METRO continues to pursue additional funding to address other critical unfunded needs as prioritized on the Unfunded Capital Projects Needs List.
- Staff requests the Finance, Budget and Audit Standing Committee recommend the Board approve the new capital project commitments identified in Section IV of this report and receive and file the 10-Year Unfunded Capital Project Needs List.

III. DISCUSSION/BACKGROUND

METRO has an extensive backlog of needed capital improvements, including vehicles (revenue and non-revenue), public and METRO staffed facilities, and technological upgrades for both customer experience and business efficiency tools, including zero emission charging infrastructure, which are needed to maintain the agency's facilities and equipment in a state of good repair and to meet its operational needs.

Unfunded Capital Project Needs List

In 2017, METRO had a 10-Year Unfunded Capital Projects Needs list of \$235 million, with half of that needed in the first five years. The updated Unfunded Capital Projects Needs List, provided for approval, now has a 10-Year need of \$206 million, with \$52 million needed in the first five years.

The Board policy to commit \$3 million annually to bus replacement has significantly contributed to the reduced near-term capital needs. However, a new FTA requirement has led to METRO establishing its first Transit Asset Management Plan (TAM) which prescribes detailed recurring maintenance and replacement schedules for capital assets.

The Unfunded Capital Projects Needs List provided in Attachment A notes five-year horizon critical needs, along with other longer-term needs, which METRO must address over the following five years. These long-term projects will include upgrades to facilities and vehicles to meet FTA TAM targets, as well as more aspirational projects intended to improve the quality of operations and better serve the riding public.

IV. RECOMMENDED CAPITAL PROJECT COMMITMENTS

METRO receives funding from a number of sources and allocates these limited funds to a range of needs to maintain operational capacity, along with attempting to keep capital assets in a state of good repair.

In support of the first METRO 10-Year Strategic Business Plan, adopted June 28, 2019, three projects and their funding sources are identified as the most critical, within financial capacity, to move the agency forward towards a sustainable future:

- Pacific Station - \$4 million from the Long Range Bus Replacement Fund over four years toward the redevelopment of the facility in conjunction with the City of Santa Cruz (City).

METRO and the City will pursue Affordable Housing Sustainable Communities (AHSC) and Better Utilizing Investments to Leverage Development (BUILD) grants in 2021 to secure the funding necessary to fully fund a re-development concept currently under consideration by the two agencies. A draft Memorandum of Understanding (MOU) outlining the partnership strategy going forward is under development.

- Bus Replacement – Up to \$3.5 million from the PTMISEA to purchase four replacement Compressed Natural Gas (CNG) buses. These funds, which expire in June 2023, are needed to procure a minimum of four CNG buses to maintain progress commitments to the Long Range Bus Replacement Plan.

- New METRO-owned ParaCruz operating facility - \$2.3 million from Federal Alternative Fuel Tax receipts.

METRO is currently in the last term of the ParaCruz lease and needs to have a new location by summer of 2022. Current plans are to convert the METRO-owned Soquel Park and Ride site into the permanent home for ParaCruz operations.

METRO will apply for FTA 5339b Buses and Bus Facilities Discretionary Program funds in 2020 and use its last remaining Alternative Fuel Tax funds as a local match to secure the funding necessary to implement this facility.

Long-Range Bus Replacement Fund

In 2018, the Board committed to a policy of allocating \$3 million annually to a Long Range Bus Replacement Fund. In FY18, METRO had 62 buses beyond their useful life still in service. As of the start of FY20, METRO now has 37 buses beyond their useful life still in service. With the new commitment to Pacific Station and a major procurement of 14 lease-to-purchase CNG buses to address the issue of buses beyond their useful life, this annual commitment will need to stand for at least the six years required to pay for the new 14 buses as shown in Table 2.

Table 2

Project/Yr.	FY20	FY21	FY22	FY23	FY24	FY25
3 Paul Revere Lease/Buys (Existing)	\$285,000	\$285,000	\$285,000	\$285,000	\$285,000	
Pacific Station	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000		
14 Lease/Buys (Pending)	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Total	\$2,785,000	\$2,785,000	\$2,785,000	\$2,785,000	\$1,785,000	\$1,500,000

Annual FTA 5339a Formula Funding

In addition, METRO receives approximately \$550,000 annually from the FTA 5339a program. For the FY19 funding cycle, we propose funding the \$450,000 replacement of the Maintenance facility roof and to rehabilitate and perform preventative maintenance on the JKS bus washer facility for \$100,000. These two projects are the highest Facilities Maintenance priorities on the current Unfunded Capital Projects Needs List.

FY19 One-Time Carryover Funding

METRO has a one-time carryover balance of approximately \$4.3 million in funding at the end of the FY19 budget year due to savings related to vacancies,

cost efficiency measures, and an increase in revenue levels. It is recommended that the majority of these funds be allocated to the following projects in Table 3:

Table 3

Completion of Cameras on Buses (6 buses)	\$100,000
JKS Upper Security Gates	\$100,000
Completion of JKS ZEB Yard-Charging Infrastructure	\$300,000
Miscellaneous Capital Contingency	\$800,000
Maintenance Yard Security Hardening and Expanded Parking	\$1,000,000
Bus Replacement Local Match Fund	\$2,000,000
Total	\$4,300,000

METRO continues to pursue additional funding to address other critical unfunded needs prioritized from the Unfunded Capital Projects Needs List.

Staff requests the Finance, Budget and Audit Standing Committee recommend that the Board approve these new capital project commitments and receive and file the 10-Year Unfunded Capital Projects Needs List.

V. FINANCIAL CONSIDERATIONS/IMPACT

Funding for these Capital Projects is currently available from the various identified sources and is needed for METRO's highest priority capital needs.

VI. ALTERNATIVES CONSIDERED

The alternative is to not execute these proposed critical projects and leave METRO in a lesser state of good repair and at higher risk of deterioration in service level & quality to the public as well as increased operating/maintenance costs of maintaining facilities which are not in a state of good repair.

VII. STRATEGIC BUSINESS PLAN ELEMENTS

Implementation of these critical Capital Projects would primarily address Strategic Business Plan Priority #6 - State of Good Repair

VIII. ATTACHMENTS

Attachment A: Unfunded Capital Projects Needs List

Prepared by: Barrow Emerson, Planning & Development Director

IX. APPROVALS

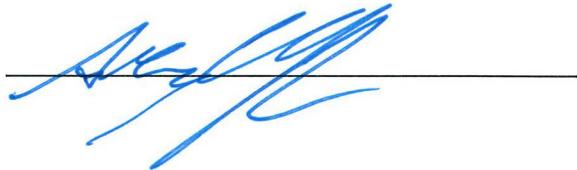
Barrow Emerson
Planning & Development Director



Approved as to fiscal impact:
Angela Aitken, CFO



Alex Clifford, CEO/General Manager



Attachment A

10 year METRO Unfunded Capital Projects - Summary

Category	5-yr need (000s)	10-yr need (000s)
Construction	\$ 11,672	\$ 150,972
Vehicle State of Good Repair (SGR)	\$ 22,290	\$ 33,915
Facilities Maintenance	\$ 10,610	\$ 13,685
Information Technology (IT)/Communications	\$ 7,421	\$ 7,421
Total	\$ 51,993	\$ 205,993

UNFUNDED CAPITAL PROJECTS (000s)										
#	Project	Construction Description	Cost (000s)	2024	2025	2026	2027	2028	2029	
1	ZEB Charging Infrastructure at JKS	JKS yard-charging infrastructure for 10 buses	\$ 297	\$ 297						
2	Security Hardening of the Maintenance Facility and Additional Parking Project - Conceptual Drawings	Civil Engineer to evaluate and create conceptual drawings for site layout (parking and other areas, not including Maint Bldg expansion)	\$ 200	\$ 200						
3	Security Hardening of the Maintenance Facility and Additional Parking Project - Specifications	Determine scope of construction tasks and develop specs (house/cottage demo, paving/grading, fencing/gates, access control, security lighting and cameras)	\$ 200	\$ 200						
4	Security Hardening of the Maintenance Facility and Additional Parking Project - Access Control & Security	Construction of fencing/gates to secure access to Maintenance Facility	\$ 150	\$ 150						
5	Security Hardening of the Maintenance Facility and Additional Parking Project - House Demo and Parking Lot Construction	Demolition of house/cottage; grading of employee/METRO vehicle parking; construction of new parking areas	\$ 1,000	\$ 450	\$ 550					
6	ParaCruz Operating Facility (Mobility Management Center)	Property Acquisition, Design, Right-of-Way and construction for new ParaCruz Operating Facility	\$ 6,000	\$ 2,300	\$ 3,700					
7	ZEB Fast-charging Infrastructure at WTC	Fast-charging infrastructure at Watsonville Transit Center	\$ 1,000	\$ 1,000						
8	Cavallaro Transit Center roof replacement and solar panels	Shingle roof and solar panels	\$ 75		\$ 75					
9	Maintenance Facility Bay 11 Modifications	Modify Bay 11 to better accommodate articulated buses.	\$ 100		\$ 100					
10	Upgrade Pasatiempo Northbound stop	Design, engineering, and construction of shelter pad and waiting area	\$ 50		\$ 50					
11	Vernon Street Bus Stop	Move (Route 4) bus stop to lower Admin parking lot. Install base and concrete to bus stop pad and maneuvering apron. Necessary precursor to securing maintenance facility.	\$ 600		\$ 300	\$ 300				
12	Solar Panels at Ops, Maintenance, Admin	Energy cost reduction through installation of roof-mounted solar panels at the Judy K. Souza Operations Facility, Golf Club, and Vernon	\$ 2,000					\$ 2,000		
13	Maintenance Facility Wing 2 (to accommodate articulated buses)	Property Acquisition (including 1231 River St), Design, Right-of-Way and Construction for second wing of Maintenance Facility	\$ 15,850					\$ 15,850		
14	Soquel/Freedom Traffic Signal Priority/Pre-emption for Buses	Enable coach operators to actuate traffic signals to prolong green or change red lights to improve transit running time	\$ 2,000					\$ 2,000		
15	Mid-county Park and Ride	New mid-county park and ride to replace Soquel Park & Ride. Capitola Mall?	\$ 10,000					\$ 10,000		
16	Watsonville Park and Ride Lot	South County P&R to support Hwy 1 commuters (200 spaces)	\$ 10,000					\$ 10,000		
17	Cavallaro Transit Center Parking Structure	3-Story Parking Structure to support Hwy 17 Express commuters and City activities	\$ 26,400					\$ 26,400		
18	Remove Diesel Tank	Remove tank after replacement of last diesel bus fleet. On hold, as more diesel buses may be added to the fleet.	\$ 50					\$ 50		
19	South County Ops. & Maint. Facility	Auxiliary Operating (including ParaCruz) & Maintenance Facility in Watsonville.	\$ 50,000						\$ 50,000	
20	New Watsonville Transit Center	Replacement of current transit center	\$ 25,000						\$ 25,000	
		Unfunded Capital Costs thru 2029	\$150,972	\$ 4,597	\$ 4,475	\$ 300	\$ 300	\$ 2,000	\$ 64,250	\$ 75,000
		Unfunded Capital Costs thru 2024	\$ 11,672							

		UNFUNDED CAPITAL PROJECTS (000s)											
		Vehicle SGR											
#	Project	Description	Cost (000s)	20	21	22	23	24	25	26	27	28	29
1	ParaCruz Replacements	5 new vehicles per year FY20-22; 3 new vehicles per year FY23-29	\$ 2,865	\$ 360	\$ 360	\$ 360	\$ 360	\$ 255	\$ 255	\$ 255	\$ 255	\$ 255	\$ 255
2	Bus Replacements 2022	Bus Replacements Replace (6) CNG buses	\$ 4,200	\$	\$ 4,200			\$ 255					
3	Bus Replacements 2023	Bus Replacements Replace (16) CNG buses	\$ 11,200			\$ 11,200							
4	Bus Replacements 2024	Bus Replacements Replace (0) buses	\$ -										
5	Bus Replacements 2025	Bus Replacements Replace (7) CNG buses	\$ 4,900					\$ 4,900					
6	Bus Replacements 2026	Bus Replacements Replace (10) CNG buses	\$ 7,000						\$ 7,000				
7	Bus Replacements 2027	Bus Replacements Replace (0) buses	\$ -										
8	Bus Replacements 2028	Bus Replacements Replace (0) buses	\$ -										
9	Bus Replacements 2029	Bus Replacements Replace (4) buses (3 CNG; 1 ZEB)	\$ 3,350									\$ 3,350	
10	Diesel-electric Hybrid Battery Replacements	10 buses - replace 4 batteries per year in FY21-22; 2 in FY23 (\$40k/battery)	\$ 400	\$	\$ 160	\$ 160	\$ 80						
11	Non-revenue Vehicle Replacements	Non-revenue trucks and cars	\$ -										
		Unfunded Capital Costs thru 2029	\$ 33,915	\$ 360	\$ 4,720	\$ 11,720	\$ 335	\$ 5,155	\$ 7,255	\$ 255	\$ 255	\$ 3,605	\$ 255
		Unfunded Capital Costs thru 2024	\$ 33,915	\$ 360	\$ 4,720	\$ 11,720	\$ 335	\$ 5,155	\$ 7,255	\$ 255	\$ 255	\$ 3,605	\$ 255

*** Based on 10/31/19 Long-Range Bus Replacement Plan
 *** Based on 2019 cost assumptions: CNG 35' & 40' - \$700k; artic - \$850k; ZEBs - \$1.25M
 *** The project year (Bus Replacements 20XX) is the year the bus needs replacement. The funding need is placed in the previous fiscal year because it takes about a year from purchase to receive the bus.

UNFUNDED CAPITAL PROJECTS (000s)													
Facilities Maintenance													
#	Project	Description	Cost (000s)	20	21	22	23	24	25	26	27	28	29
1	Pacific Station Rehabilitation or Redevelopment	Rehab of existing facility or redevelopment as part of City project, subject to availability of grant funding	\$ 5,800	\$ 4,000		\$ 1,800							
2	Golf Club - Replace Roof	Replace entire roof - poor construction and leaks throughout	\$ 450	\$ 450									
3	Bus Washer	Refurb N/S Wash System purchased 2008 & upgrade water recycling system	\$ 100	\$ 100									
4	Gate Control - bus entries at JKS	Security gates and gate controller for upper entry to bus yard	\$ 100	\$ 100									
5	Capital upgrade of existing transit facilities	Capital upgrade of bus stops, parking lots, transit centers, buildings	\$ 675		\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75	\$ 75
6	Custodial Equipment Replacement	Vacuums, Buffers, Scrubbers	\$ 200	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
7	Landscaping/Irrigation	Re-landscape & irrigate all sites	\$ 240	\$ 30	\$ 30	\$ 30	\$ 30	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
8	Bird Abatement	All Facilities	\$ 10		\$ 10								
9	Furniture	All Facilities	\$ 150		\$ 50	\$ 50	\$ 50	\$ 50					
10	Fueling and Wash Facility - Awning Install	Construction phase - Awning at front of fueling island	\$ 250		\$ 250								
11	Fuel and Wash Facility - rust removal and repaint	Remove rust and repaint bus fuel and wash facility and equipment	\$ 125		\$ 125								
12	Replace Pressure Washer System	Pressure washer for engine cleaning	\$ 580		\$ 580								
13	Golf Club Flooring		\$ 400		\$ 400								
14	Emergency Operations Centers	Phones, radios, flat-screen TV monitors, laptops	\$ 200		\$ 200								
15	Maintenance parking lot drainage	French drain or other solution to ensure water doesn't drain to Rayne building	\$ 50		\$ 50								
16	Portable Bus Lifts	1 sets of 4 standard lifts, \$75k. Estimate includes labor.	\$ 75		\$ 75								
17	Administration Remodel	Office remodel of 110 Vernon St.: move/add office space and reconfigure/replace HVAC	\$ 1,000			\$ 1,000							
18	Golf Club Interior Painting	Golf Club Interior Painting	\$ 150			\$ 150							
19	Medium Duty Trash Truck	Specialty truck for safer and more efficient bus stop trash cleanup	\$ 150			\$ 150							
20	Shop bay door drainage	French drain or other solution for shop bay door drainage	\$ 200				\$ 200						
21	Golf Club Parts Washers (3)	Replace the JRI units purchased 2010	\$ 80					\$ 80					
22	Parallelogram Lift Replacement		\$ 200					\$ 200					
23	Fueling Station	Roof replacement and mid-life rehab. Includes sewer lift pump	\$ 250							\$ 250			
24	Golf Club Generator Replacement		\$ 100								\$ 100		
25	Bus Washer Replacement		\$ 450									\$ 450	
26	In-ground Bus Lifts	Remove and replace in-ground lifts	\$ 1,700										\$ 1,700
			\$ 13,685	\$ 4,700	\$ 1,865	\$ 3,275	\$ 375	\$ 395	\$ 115	\$ 115	\$ 365	\$ 215	\$ 2,265
			Unfunded Capital Costs thru 2024										

		UNFUNDED CAPITAL PROJECTS (000s)											
		IT											
#	Project	Description	Cost (000s)	20	21	22	23	24	25	26	27	28	29
1	Surveillance systems on buses	Phase 2 (remaining buses). Retrofit 25 buses each in FY20 and FY21	\$ 100	\$ 100									
2	Bus APC	Automatic Passenger Counter (APC) systems on all METRO buses.	\$ 650	\$ 650									
3	Maintenance Facility Electronic Access Control	Electronic building access control to Golf Club Maintenance building; security lighting and cameras	\$ 50	\$ 50									
4	Backup (to Kite Hill) Repeater Site	2-way Radio Equipment to allow JKS to function as an emergency radio repeater site	\$ 25	\$ 25									
5	Eligibility Coordinator ID Card Printer		\$ 6	\$ 6									
6	Account-based Fare Collection Upgrade	Account-based fare collection upgrade to replace GFI paper and plastic pass system (excluding fareboxes and vaults)	\$ 1,500		\$ 1,500								
7	Financial Management Software	Financial, Payroll, Timekeeping Software	\$ 250		\$ 125	\$ 125							
8	Security System Replacement for WTC and Pacific Station	Replace security system at end-of-life	\$ 375		\$ 375								
9	Website Upgrade		\$ 150			\$ 150							
10	Rebranding - Phase 1		\$ 75			\$ 75							
11	Backup system	Backup system to meet growing disaster recovery needs	\$ 20			\$ 20							
12	TVMs - replacements and additional	TVM Upgrades and/or replacements	\$ 250			\$ 250							
13	MaintStar Expansion Software and Mobile Equipment	Asset and Maintenance Managing software and equipment with onsite training and installation. Work field orders.	\$ 150			\$ 150							
14	ITS	Public WiFi equipment on all facilities and routes beginning w/UCSCs and Express buses. Bus AVL implementation may negate the need for this.	\$ 1,000			\$ 1,000							
15	Camera security system for ParaCruz facility	Camera security system for ParaCruz facility	\$ 150			\$ 150							
16	Security System Replacement for Vernon and Golf Club	Replace security system at end-of-life	\$ 350			\$ 350							
17	Replace Fareboxes and Vaults	Replace fareboxes and vaults at end-of-life.	\$ 2,250					\$ 2,250					
18	Phone System Replacement	Replace phone system at end-of-life	\$ 70					\$ 70					
Unfunded Capital Costs thru 2029			\$ 7,421	\$ 831	\$ 2,000	\$ 2,270	\$ -	\$ 2,320	\$ -				
Unfunded Capital Costs thru 2024			\$ 7,421										

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