

Policies and Procedures

No. 36

SUBJECT:

Board Approval: 4/18/13

MTS RESERVE FUNDS

PURPOSE:

This policy and procedure is established to standardize and to create requirements for the establishment, management, utilization, and minimum funding requirements (where applicable) of all MTS reserve funds.

BACKGROUND:

MTS maintains a number of reserve accounts that are designated for various purposes including serving as MTS contingency reserves and other MTS Board-approved reserves. These funds will be incorporated in an annual report to the MTS Board as part of the fiscal year-end financial analysis and will be the basis of discussions as part of the annual budgetary process. This policy will standardize the policy and procedures of all MTS reserves.

POLICY:

36.1 Establishment of Reserves

Reserve accounts shall be established upon the adoption of a resolution that must specify:

- a. Purpose of the reserve and eligible use(s).
- b. Establishment of eligible uses of funding.
- c. Source/type of the funding.
- d. Minimum funding level, if applicable.

The form of this resolution is shown in Exhibit 36.1.

36.2 Management of Reserves

Unless otherwise stated, all reserves shall be invested and interest earnings allocated proportionately. As part of the fiscal year-end financial analysis, staff will prepare a report to the MTS Board of Directors that



shall include all MTS reserves. This information will also be included within the following fiscal year's annual budgetary book. All reporting of reserve accounts will satisfy the objective of being self-explanatory and easy to understand.

36.3 Utilization of Reserves

Reserves may be utilized and/or expended provided that staff verifies that funds are available and upon specific approval by the Board either with the adoption of the annual MTS budget or as needed.

36.4 Minimum Percentage Funding Requirements (where applicable)

A minimum percentage of approximately 12.5 percent of the total combined MTS operating budgeted expenses should be maintained in a contingency reserve. Excess funds beyond this minimum level in unrestricted, contingency reserves will be available for the Board's purposes, to be determined by the Board of Directors as part of the annual budget development process or at any time of the year if unforeseen/special occurrences justify action. Periodically, due to the timing of subsidy fund receipts, contingency reserves act as working capital advances in anticipation of the receipt of these subsidy funds. Such advances are to be immediately repaid upon receipt of the subsidy funds.

As of fiscal year 2013, the contingency reserve rate is lower than the minimum requirement as per this policy. Beginning in fiscal year 2014, over the course of the next two fiscal years, this funding rate will increase to the 12.5 percent rate.

The Chief Financial Officer's designated representative shall provide a fiscal year-end financial report providing updated balances on all MTS reserve accounts, including a roll-forward analysis of the MTS contingency reserve account. Any potential significant changes to the reserve's balance shall be reported to the Board at the time it becomes known to the Chief Financial Officer and/or the representative.

Action to decrease this minimum contingency reserve level shall require two-thirds vote of the MTS Board of Directors.

POLICY.36.RESERVE FUNDS
4/18/13

Exhibit: Reserve Account Request Resolution

Original Policy adopted on 2/9/89.
Policy revised on 1/13/94.
Policy revised on 6/28/01.
Policy revised on 4/29/04.
Policy revised on 4/18/13.

EXHIBIT 36.1

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Resolution No. _____

Resolution Establishing a Reserve Account(s)

WHEREAS, the San Diego Metropolitan Transit System (MTS) has determined that certain funds are to be reserved for specific purposes; and

WHEREAS, said reserve account(s) shall be established and maintained in accordance with MTS Policy No. 36 – Reserve Funds; NOW, THEREFORE, BE IT RESOLVED, that the MTS Board of Directors approves the establishment of the reserve account(s).

Exhibit 1 - Policy 36
04/18/2013