Date: February 26, 2014
To: Board of Directors
From: Neil McFarlane
Subject: RESOLUTION 14-02-05 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING TRIMET’S UNRESTRICTED FUND BALANCE AND CONTINGENCY POLICY

1. Issue or Purpose of Item.

The purpose of this item is to request that the TriMet Board of Directors (“Board”) adopt a Resolution amending TriMet’s Unrestricted Fund Balance and Contingency Policy.

2. Reason for Board Action.

In conjunction with the establishment of a Strategic Financial Plan the Board desires to update TriMet’s Unrestricted Fund Balance and Contingency Policy.

3. Background.

In October 2012 the Board approved Resolution 12-10-89 adopting an Unrestricted Fund Balance and Contingency Policy (Policy). The Policy provides guidelines for budgeting and fiscal management throughout the year, to ensure that sufficient financial resources are maintained for unanticipated expenditures or revenue shortfalls. Prudent financial practice includes establishment of a formal policy which defines appropriate levels of unrestricted fund balance and contingency, and also provides guidance for corrective action should these levels not be met.

On February 12, 2014 the Board and staff discussed fund balance target levels and alternative investment strategies. While there is agreement that more financial reserves are better than less, there was recognition that there may be better investment alternatives. Thus, the objective to maintain a minimum fund balance reserve of 2.5 months of operating expenses is not being changed at this time.

Even though there are no material changes proposed, we are asking the Board to update TriMet’s Policy because the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities significantly changed accounting terminology. The attached Policy uses the updated GASB language.
4. **Options.**

The Board may elect not to approve or may amend the guidelines established by the Policy.

5. **Recommendation.**

The General Manager recommends that the Board approve the Resolution.

DA/LMB/pc
RESOLUTION 14-02-05

RESOLUTION OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING TRIMET’S UNRESTRICTED FUND BALANCE AND CONTINGENCY POLICY

WHEREAS, the TriMet Board of Directors (“Board”) in development of TriMet’s Strategic Financial Plan identified a need for increased unrestricted fund balance and contingency; and

WHEREAS, on October 24, 2012 the Board approved Resolution 12-10-89 adopting an Unrestricted Fund Balance and Contingency Policy (Policy); and

WHEREAS, on February 12, 2014 the Finance & Audit Committee reviewed and discussed the amended Policy; and

WHEREAS, the Board desires to amend TriMet’s Policy as set forth in Exhibit A to this Resolution, which shall be subject to continuing Board review as provided in the Policy;

NOW, THEREFORE, BE IT RESOLVED:

That the Board hereby approves the Unrestricted Fund Balance and Contingency Policy set forth in the attached and incorporated Exhibit A.

Dated: February 26, 2014

________________________________________________________________________
Presiding Officer

Attest:

________________________________________________________________________
Recording Secretary

Approved as to Legal Sufficiency:

________________________________________________________________________
Legal Department
Resolution 14-02-05
Exhibit A

Unrestricted Fund Balance and Contingency Policy

Purpose:
The Fund Balance and Contingency Policy (or “Policy”) is intended to provide guidelines for budgeting and throughout the year, to ensure that sufficient financial resources are maintained for unanticipated expenditures or revenue shortfalls. The Policy is also intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance and Contingency Policy should maintain a long-term perspective, recognizing that stated thresholds are considered minimum balances. The primary objective of establishing and maintaining this policy is for the district to be in a strong financial position that will allow for better position to weather negative economic trends.

Definitions:
Fund Balance is the difference between assets, liabilities and deferred balances of the District (also referred to as “net position”). Fund Balance for the District has two categories:

- **Restricted Fund Balance** – these funds have constraints placed on their use externally by creditors, grantors, contributors, or laws/regulations. These funds are not addressed in this policy due to the nature of their restrictions. When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

- **Unrestricted Fund Balance** – these funds (which include unused Contingency), are available for the ongoing operation of the District and are subject to the limitations defined by this Policy. Contingency represents dollars appropriated in the annual budget that are set aside for unanticipated or undefined costs incurred in the year. The level of Contingency approved annually in the budget should be an amount sufficient to cover possible expenditure variations during the fiscal year. With Board approval, contingency can be used during the year to cover these requirements.

Contingency and Unrestricted Fund Balance are one-time only resources: once they are depleted, there is not a continuing revenue source to replenish them. TriMet does not maintain any unrestricted reserves other than Unrestricted Fund Balance. Costs such as self-insured claims, capital investments and asset replacement, and unanticipated or higher than anticipated expenses, and unexpected declines in revenue all must be covered by the Unrestricted Fund Balance/Contingency each year.
Minimum Requirements for Contingency and Unrestricted Fund Balance:

Contingency:

Budgeted Contingency will be at least 3% of Total Operating Requirements. Based on an assessment of expenditure risk for the upcoming fiscal year the General Manager may recommend a higher level of Contingency and include such recommendation in the Proposed Budget. The Board holds final authority over approval of the annual budget.

Unrestricted Fund Balance:

Unrestricted Fund Balance should be at least 2.5 times the appropriated average monthly operating expenditures for the upcoming fiscal year.

Replenishment Plan:

If the Unrestricted Ending Fund Balance is less than 2.5 times the appropriated average monthly operating expenditures for the upcoming fiscal year, the Board must approve a restoration plan to correct for the shortage within a three year period.

Reporting:

The Board will receive financial reports at least quarterly, which include current fund balance levels, and comparison of Unrestricted Fund Balance to the Policy standards.

Policy Review:

The Fund Balance Policy will be reviewed and approved by the Board bi-annually. Necessary revisions to the Policy including fund balance minimums will be considered during this review process.