



STRUCTURAL DEFICIT WORKSHOP

IV of V

Board Philosophies

Santa Cruz METRO Board of Directors

November 14, 2014

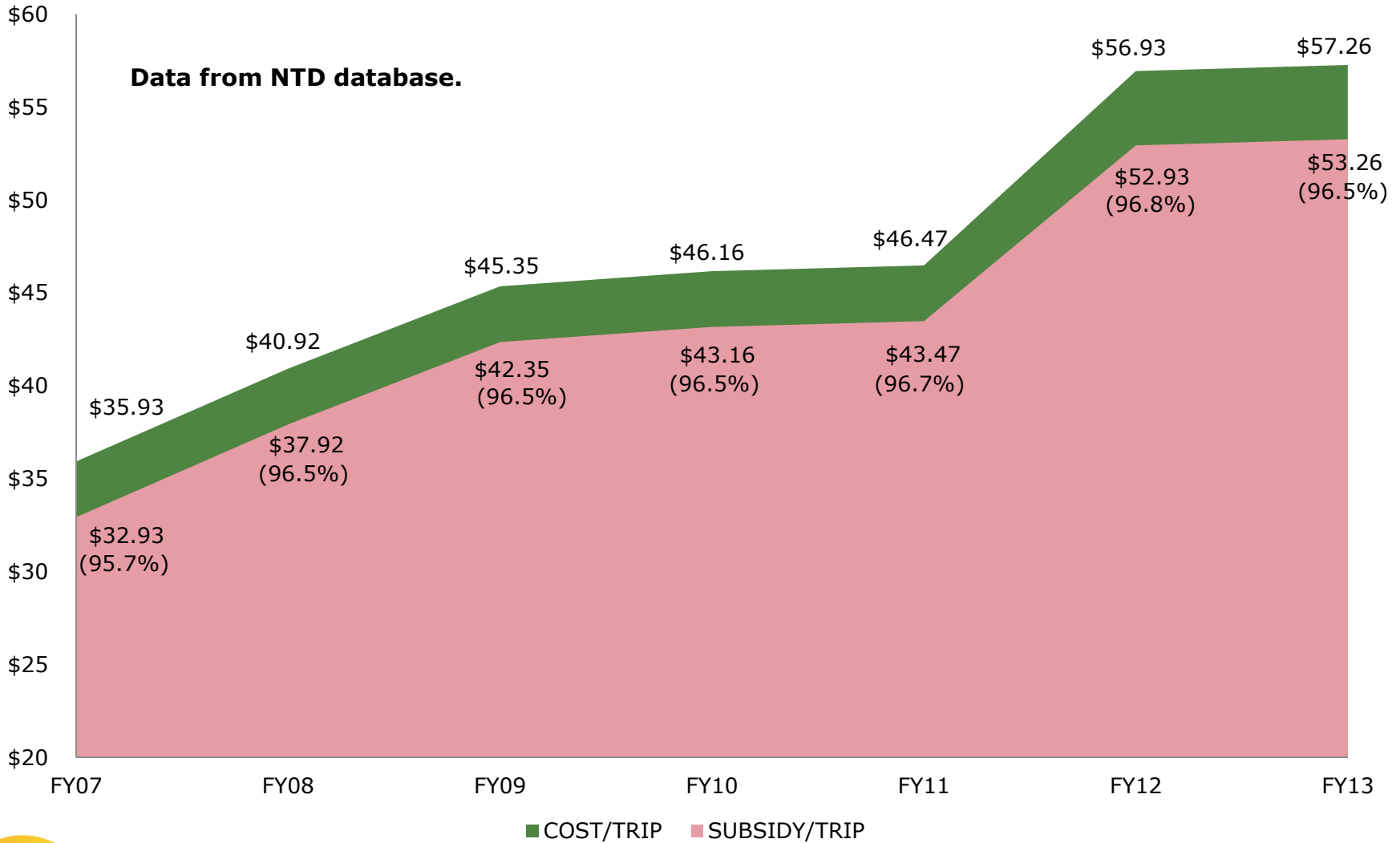
Alex Clifford, CEO

Follow-up Information from Previous Board Meeting

Bellingham Transit – How do they keep their fare so low?

- 6/10 of a cent sales tax (County) used exclusively for transit
- State issued Formula Amount = Other Funding Source
- 900 square mile service area
- 90 Fixed Route buses
- 30 Paratransit vehicles
- Referred to as a Public Transportation Benefit
- Their community is very supportive of transit.

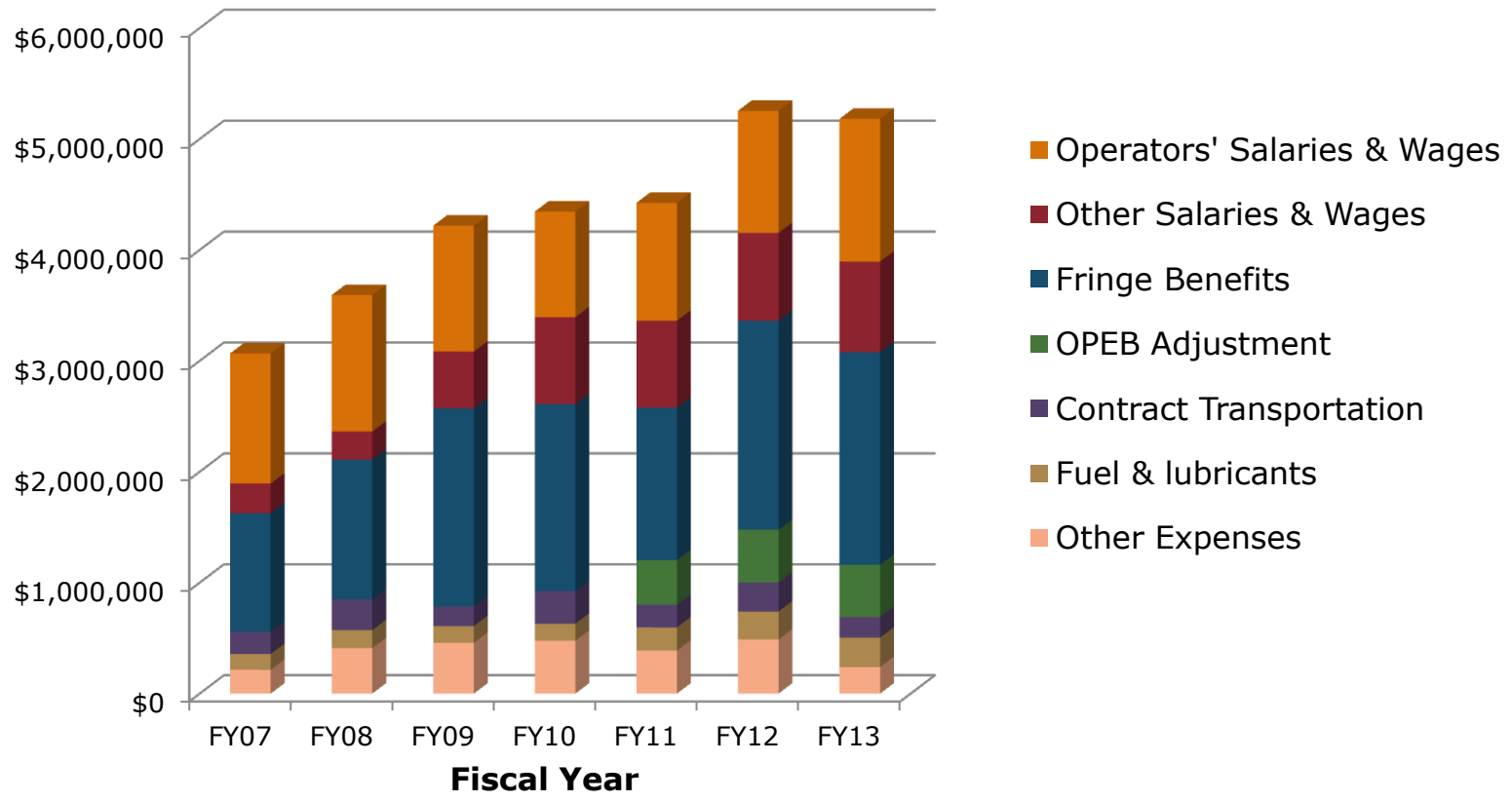
Key ParaCruz Performance Indicators



Key ParaCruz Performance Indicators

Expenses by Type

(Follow-up Slide #10.22 from Oct. 10, 2014)



Board Philosophy

- *Do You Want Targeted Reserve Balances?*
- *Source and Use of Recurring Capital Eligible Funds*
- *End of Fiscal Year Favorable Variance (Carryover)*

Do You Want Targeted Reserve Balances ?

Operating Reserves as of 06/30/2014

Target: \$3.3M



\$1.2M Deficient

Target: \$710K



\$9K Deficient

Target: \$7.0M



\$4.5M Deficient

Target: \$3.0M



Fully Funded



No Minimum Balance

Workers' Compensation Reserve

Explanation and Use:

- Funds set aside to finance the **long term portion of workers' compensation liability**, as of the end of the fiscal year.
- The long term portion of workers' compensation liability is determined by an **actuarial review performed every 3 years**.

Suggested Guidelines: **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.

Funding Status: \$2.1M or 63% funded

Deficit Status: \$1.2M or 37% deficient

Target: \$3.3M



Liability Insurance Reserve

Explanation and Use:

- Funds set aside to pay the cost of **outstanding liability and physical damage claims.**
- Minimum balance in the reserve account = Self Insured Retention (SIR)+ 5-year rolling average of outstanding claims at fiscal year end. Minimum balance is updated at the end of each fiscal year, based on in-house analysis.

Suggested Guidelines: **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.

Funding Status: \$701K or 99% funded;

Deficit Status : \$9K or 1% deficient

Target: \$710K



Board Discussion

Staff Recommendation

Fund Workers' Compensation and Liability Insurance Reserves to minimum or **Target** levels, as established by Actuarial and In-house reviews.

Operating Reserves

Explanation and Use:

- 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).

Target: \$7.0M



Suggested Guidelines: 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.

Funding Status: \$2.5M or 36% funded;

Deficit Status: \$4.5M or 64% deficient

Operating Reserves – Peer Data

Examples of Operating Reserve Policy Guidelines:

- No less than 2 months operating revenues – or 2 months operating expenses
- A specific \$ amount (i.e. \$7M)
- A % of annual operating expenses (i.e. 7%)

Peer Agency Reserve Policy Guidelines:

- **CCCTA – Concord**
 - No formal policy – FY14 (informal) Reserve = 32% based on operating expenses
- **GCT – Oxnard**
 - No formal policy – they do maintain a capital reserve
- **GET – Bakersfield**
 - \$6M (= 22.6% reserve based on annual operating expenses)
- **MST – Monterey**
 - 15% reserve – currently working on a staff recommendation for a minimum cash balance
- **SJ RTD – Stockton**
 - No formal policy – general practice \$200-\$300K set aside in operating budget
- **SB MTD – Santa Barbara**
 - No formal policy – informal *goal* of annual FTA 5307 - Operating Assistance + 15% of operating budget – working on a formal policy

Operating Reserves – CSMFO Survey

General Fund Reserve Policy – Survey - April 2, 2014:

Question: At what level has your Council/Board established your General Fund Reserve as a percentage?

- Average % of the 49 agencies that responded = **24%**

- **% of Operating Reserves:**
 - 0% to 25% = 29 agencies
 - 26% to 50% = 17 agencies
 - 51% to 75% = 2 agencies
 - 76% to 100% = 1 agency

Board Discussion

Staff Recommendation

Fund Operating Reserves to **Target** level = 2 month's operating expenses, as recommended by GFOA.

Cash Flow Reserves

Explanation and Use:

- Funds set aside to “cash flow” capital and/or operating expenses incurred before receiving reimbursements from various funding sources (Annual FTA 5307 (& STIC), STA, SLPP, etc).

Suggested Guidelines: The cash flow reserve is necessary to maintain adequate “cash flow” or “cash on hand” because expense outflows do not equally match revenue inflows. There also may be significant delays in capital grant reimbursements.

Funding Status: **\$3.0M or 100% funded** (Current target of \$3M is based on historical trend; but could be impacted significantly by new capital grant programs, with longer reimbursement cycles.)

Target: \$3.0M



Board Discussion

Staff Recommendation

Fund Cash Flow Reserves to minimum or Target levels.

Minimum or Target levels must be re-evaluated at regular intervals to ensure the established amount is adequate.

Staff would bring an annual minimum or Target level recommendation to the BOD along with the annual budget.

Operating/Capital Reserves

Explanation and Use:

- 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.
- Allow organizations to:
 - Respond to unanticipated opportunities (development of new programs)
 - Provide the required local match to grants



Suggested Guidelines: Any use of Operating / Capital Reserves above CEO executive authority will be brought to the BOD for consideration.

Funding Status: There is no Board Adopted Minimum Balance established.

Board Discussion

Staff Recommendation

Designate the Operating/Capital Reserves to:

- **Capital Projects**
- **Required Local Match to Grants**

CEO will work within executive authority. Any use of Operating / Capital Reserves above executive authority will be brought to the BOD on a case-by-case basis for consideration.

Source and Use of Recurring Capital Eligible Funds

- *State and Federal Funding*
- *Unfunded Capital Projects*

State and Federal Funding

- *State Funding*

- *STA*

- *The State Controller allocates funds by formula*
 - *Claimants must meet the farebox recovery ratio requirement*
 - *Prior to FY11 – All funds were used as the Primary source for funding Capital projects and local match*
 - *FY12 – FY16 – All funds used in Operating Budget to balance (as per waiver)*
 - *STA approximately \$2.8M per year in FY15 & FY16*
 - *To use STA in the Operating Budget without the current waiver - total operating costs per revenue vehicle hour must not exceed the previous year's cost as adjusted by the CPI*
 - *Current waiver is subject to legislative renewal*
 - *Without legislative action the ability to use STA in the Operating Budget will sunset 06/30/2015.*

State and Federal Funding (cont.)

*Absent legislation, we need to find **\$2.8M** to balance the operating budget in **FY16**.*

State and Federal Funding (cont.)

- *Federal Funding*
 - *FTA STIC (Section 5307)*
 - *Funds are allocated by formula; based on six (6) performance categories per UZA*
 - *FY07 to FY11 – All funds were used to fund the consolidated MetroBase Capital Project*
 - *FY12 – FY16 – All funds used to balance the Operating Budget*
 - *Approx. \$1.4M per year in FY15 & FY16*
 - *Pursuing legislation to increase STIC from \$1.4M to \$3.0M*

Unfunded Capital Projects

| Project | Cost (000s) |
|---------------------------------------|----------------|
| Golf Club Conference Rm. Fire escape | \$100 |
| Human Resources Software | \$75 |
| Facilities Vehicle Tools | \$24 |
| Bus Stops | \$50 |
| Bus APC | \$1,200 |
| Farebox Upgrade | \$1,300 |
| Cameras on Buses | \$1,700 |
| WiFi expansion | \$1,000 |
| Signal Priority/Pre-Emption for Buses | TBD |
| Bus Replacements 2016 | \$2,400 |
| Bus Replacements 2017 | \$23,325 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---------------------------------------|----------------|
| Bus Replacements 2018 | \$17,400 |
| Bus Replacements 2020 | \$3,000 |
| Bus Replacements 2022 | \$7,800 |
| Bus Replacements 2023 | \$3,000 |
| Bus Replacements 2024 | \$6,600 |
| Mid-Life Overhaul, 2015-2024 | \$16,000 |
| ParaCruz Adds & Replacement Vans 2016 | \$400 |
| ParaCruz Adds & Replacement Vans 2017 | \$1,300 |
| ParaCruz Adds & Replacement Vans 2018 | \$935 |
| ParaCruz Adds & Replacement Vans 2019 | \$300 |
| Non Revenue Vehicles, 2015-2024 | \$1,058 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---|----------------|
| HASTUS Upgrade | \$850 |
| Financial Management Software | \$74 |
| Purchasing Software | TBD |
| Payroll Software | TBD |
| Pacific Station Renovation | \$12,000 |
| Maintenance for existing transit facilities | \$500 |
| Exhaust evacuation @ Golf Club. | \$35 |
| Propane bus mule | \$70 |
| Bus Washer | \$50 |
| Parts Washers (3) | \$75 |
| Facilities Bucket Truck | \$100 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---|----------------|
| Solar Panels and Water Harvesting/Tree Removal | \$4,000 |
| Remove Diesel Tank | \$100 |
| Property Acquisition | \$850 |
| ParaCruz Operating Facility (Mobility Management Center) | \$10,000 |
| Watsonville Transit Center Renovation | TBD |
| Park and Ride Lots for Bus Commuters | \$1,500 |
| Maintenance Equipment Routine replacements | \$125 |
| Emergency Generator: move from Pacific Station to WTC | \$20 |
| Emergency Generator: Pacific Station | \$55 |
| Emergency Generator: Vernon | \$55 |
| Emergency Generator: Scotts Valley | \$20 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---|----------------|
| Reseal/Resurface Vernon St. lot | \$15 |
| Reseal/Resurface Soquel P&R | \$35 |
| Reseal/Resurface Scotts Valley | \$15 |
| Reseal/Resurface Soquel Pacific Station | \$35 |
| Gates/Fences Golf Club | \$75 |
| Gates/Fences Fueling Station | \$35 |
| LED Lights | \$150 |
| New Clock System, All sites | \$200 |
| Roof Replacement, Vernon | \$75 |
| Roof Replacement, Golf Club | \$100 |
| Roof Replacement, Pacific Station | \$250 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---|----------------|
| Roof Replacement, Scotts Valley | \$100 |
| Roof Replacement, Fueling Station | \$50 |
| Bus Lifts | \$1,000 |
| Parking Deck for ParaCruz fleet @ Golf Club | \$5,000 |
| Landscaping | \$160 |
| Exterior/Interior Painting | \$465 |
| Custodial Equipment Replacement | \$150 |
| Landscape Equipment replacement | \$50 |
| Replace Fleet Hose Reels | \$100 |
| Fleet Woodworking tools | \$75 |
| Replace Fueling Station Hose Reels | \$75 |

Unfunded Capital Projects

| Project | Cost (000s) |
|---|------------------|
| Bird Abatement | \$10 |
| Upgrade HVAC Systems, all sites | \$2,000 |
| Offsite SCMTD Servers | \$50 |
| FiberOptic Switches | \$5 |
| Tire Carousel | \$50 |
| Relocate Mechanics Sink, fleet | \$10 |
| Repair Building cracks | \$10 |
| Bus Stop 110 Vernon | \$80 |
| Fire Suppression for IT Server Room | \$100 |
| Furniture, all facilities | \$300 |
| Unfunded Capital Costs thru 2025 | \$130,271 |

Note: Unfunded Rolling Stock Total - \$82,460

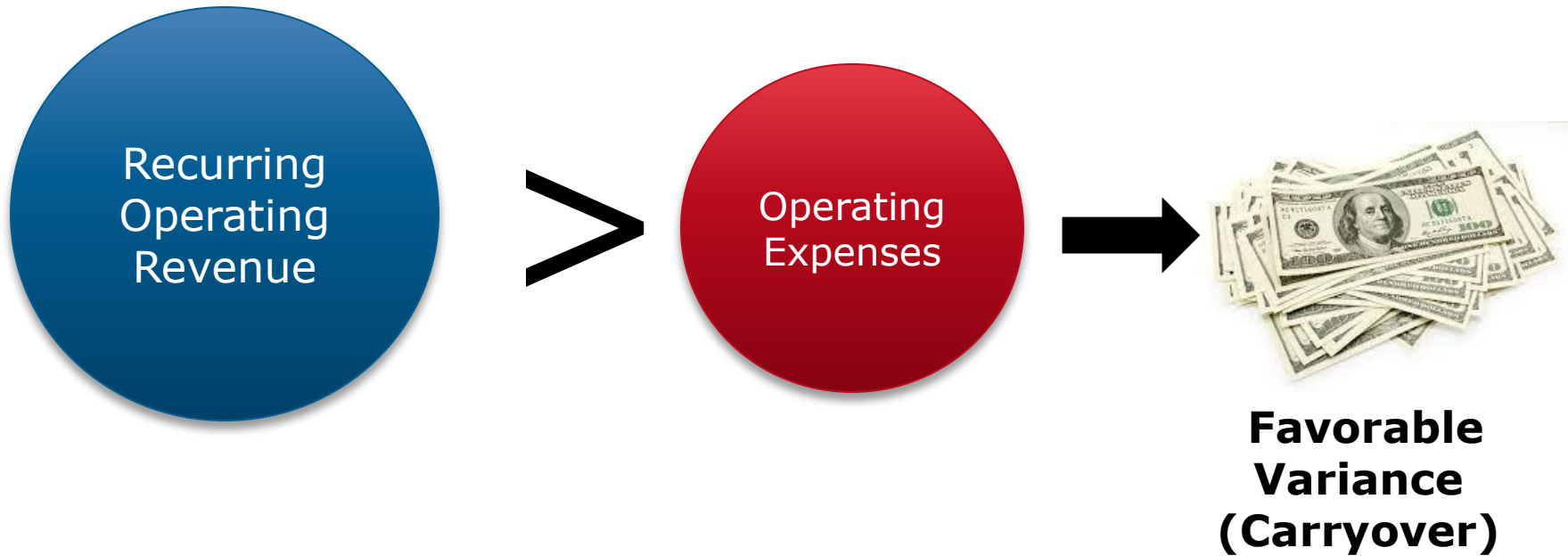
Staff Recommendation

All **STA** and **STIC** to be redirected into the **Capital Budget** upon resolution of the structural deficit.

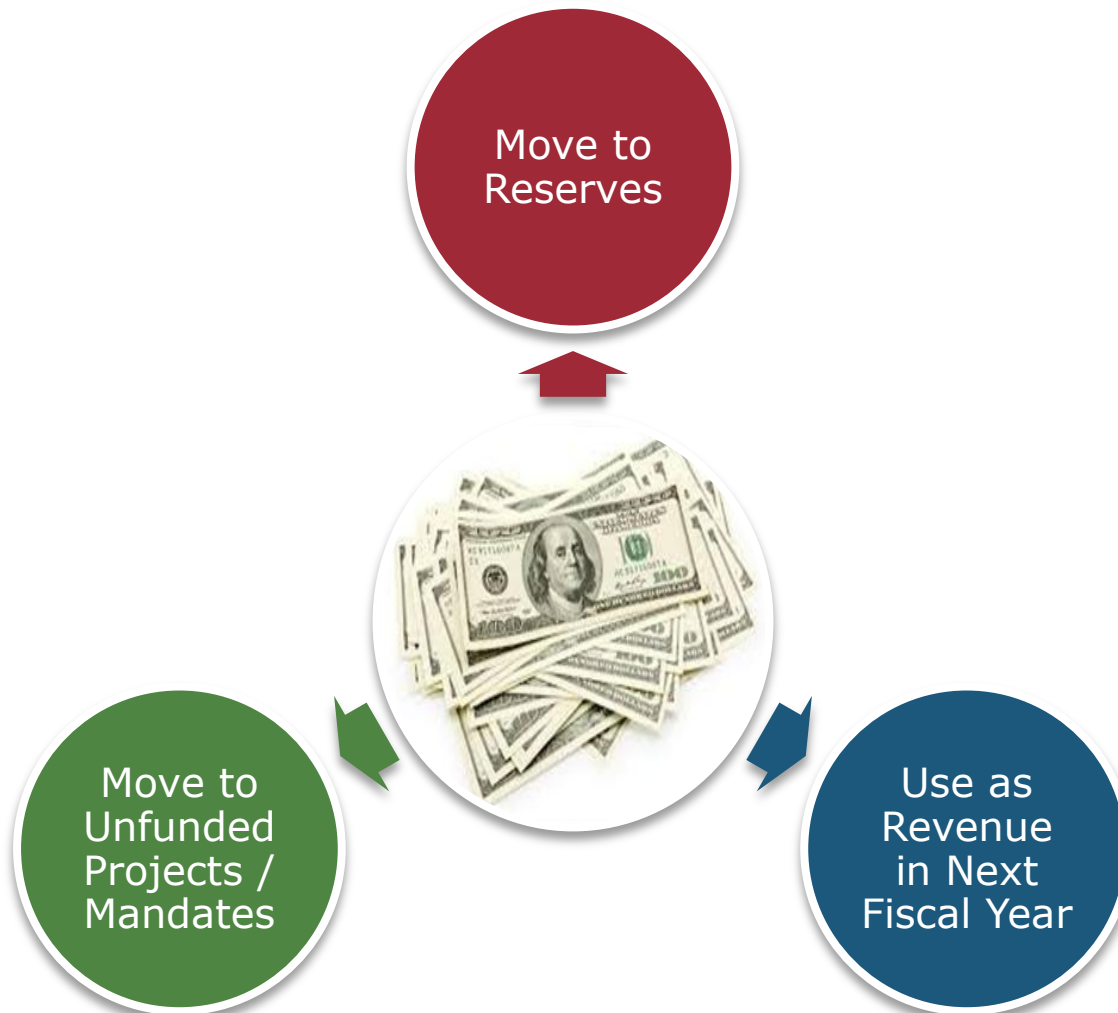
End of Fiscal Year Favorable Variance (Carryover)

- *Use as Revenue for Next Fiscal Year*
 - *Move to Reserves*
- *Move to Unfunded Projects/Mandates*

End of Fiscal Year Favorable Variance (Carryover)



End of Fiscal Year Favorable Variance Options (Carryover)



Board Discussion

Staff Recommendation

Carryover distribution options to be reviewed on an annual basis to determine the best use of funds.

1. Move to (replenish) Reserve Accounts
2. Move to Unfunded Projects / Mandates
3. Use as Revenue in next fiscal year

Questions

Glossary of Terms

Carryover - End of Fiscal Year Favorable Variance

GASB - Governmental Accounting Standards Board

GFOA - Government Finance Officers Association

STA - State Transit Assistance

(FTA) STIC - Small Transit Intensive Cities Program

UZA - Urbanized Area