

**Date:** October 23, 2019

**To:** Board of Directors

**From:** Doug Kelsey

**Subject:** **RESOLUTION NO. 19-10-81 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING TRIMET'S UNRESTRICTED FUND BALANCE AND CONTINGENCY POLICY**

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**1. Purpose of Item**

This Resolution requests that the TriMet Board of Directors (Board) amend TriMet's Unrestricted Fund Balance and Contingency Policy (Policy).

**2. Type of Agenda Item**

- Initial Contract
- Contract Modification
- Other – Amend Unrestricted Fund Balance and Contingency Policy

**3. Reason for Board Action**

Board action is required to amend TriMet's Unrestricted Fund Balance and Contingency Policy.

**4. Type of Action**

- Resolution
- Ordinance 1<sup>st</sup> Reading
- Ordinance 2<sup>nd</sup> Reading
- Other \_\_\_\_\_

**5. 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. The policy was set to maintain a minimum fund balance reserve of 2.5 months of operating expenses.

At its February 2014 meeting, the Board amended the Policy in Resolution No. 14-02-05. Prior to that meeting, the Board and staff discussed fund balance target levels and alternative investment strategies. While there was agreement that more financial reserves are better than less, there was recognition that there may be better investment alternatives. Thus, there was no change to the objective of maintaining a minimum fund balance reserve of 2.5 months of operating expenses, and the Policy update in Resolution No.14-02-05 was limited to

incorporating newly adopted accounting terminology described in Government Accounting Standards Board (GASB) Statement No. 65.

In late 2018, TriMet underwent a routine rating agency review using the FY2018 audited financial statement. Based on that audit, at year-end the undistributed fund balance was slightly less than the 2.5 months of operating expenses required by TriMet's Policy. Two weeks after that point in time, TriMet received funds that raised the undistributed fund balance well above the Policy requirement. After the rating agency was provided this information, TriMet's rating was unaffected by the finding that the undistributed fund balance was insufficient.

Because of this incident, Staff proposed to the Finance and Audit Committee that the specific number of 2.5 months of operating expenses be amended to reflect a range of 2.0 to 2.5 months of operating expenses, in order to allow flexibility to accommodate similar unforeseen cash inflow interruptions. The Finance and Audit Committee agreed that this amendment is financially reasonable and prudent, and should be included in the restatement of the Strategic Financial Plan.

**6. Financial/Budget Impact**

There is no budget impact.

**7. Impact if Not Approved**

TriMet could risk non-compliance if the undistributed fund balance is insufficient when a review or audit takes place.

**RESOLUTION NO. 19-10-81**

**RESOLUTION NO. 19-10-81 OF THE TRI-COUNTY METROPOLITAN  
TRANSPORTATION DISTRICT OF OREGON (TRIMET)  
AMENDING TRIMET'S UNRESTRICTED FUND BALANCE AND  
CONTINGENCY POLICY**

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

**WHEREAS**, on October 24, 2012, the Board approved Resolution No.12-10-89 adopting an Unrestricted Fund Balance and Contingency Policy (Policy); and

**WHEREAS**, on February 26, 2014, the Board approved Resolution No. 14-02-05 to amend the Policy to conform to new Government Accounting Standards Board (GASB) accounting language; and

**WHEREAS**, it subsequently became apparent that the current Policy's requirement to retain a minimum of 2.5 months of operating expenses as a contingency was unnecessarily and unrealistically inflexible; and

**WHEREAS**, TriMet's Finance and Audit Committee determined a range of 2.0 to 2.5 months of operating expenses is financially reasonable and prudent in order to allow flexibility to accommodate unforeseen cash inflow interruptions, and recommends that the Board approve this amendment to the Policy; and

**WHEREAS**, the Board desires to amend TriMet's Policy to provide for a range of 2.0 to 2.5 months of operating expenses as an unrestricted fund balance and contingency 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: October 23, 2019

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Presiding Officer

Attest:

\_\_\_\_\_  
Recording Secretary

Approved as to Legal Sufficiency:

  
\_\_\_\_\_  
Legal Department



## **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 and 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 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.

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**Unrestricted Fund Balance:**

Unrestricted Fund Balance should be within the range of at least 2.0 - 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 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 the following 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.

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