

Date: February 24, 2016

To: Board of Directors

From: Neil McFarlane *Neil McFarlane*

Subject: RESOLUTION 16-02-10 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) ADOPTING A REVISED UNRESTRICTED FUND BALANCE AND CONTINGENCY POLICY

1. Purpose of Item

The purpose of this item is to request that the TriMet Board of Directors (“Board”) approve a revised Unrestricted Fund Balance and Contingency Policy.

2. Type of Agenda Item

- Initial Contract
- Contract Modification
- Other: Revised Unrestricted Fund Balance and Contingency Policy

3. Reason for Board Action

The current Unrestricted Fund Balance and Contingency Policy (“Policy”), was approved by the Board in February 2014, and states that the Board will review the Policy on a bi-annual basis. It is now February 2016 and the updated Policy is presented here for review and approval.

The bi-annual review is required because the Board has ultimate responsibility and authority for the District’s funds. The Policy establishes the guidelines for budgeting to ensure that sufficient financial resources are maintained.

4. Type of Action:

- Resolution
- Ordinance 1st Reading
- Ordinance 2nd Reading
- Other _____

5. Background

This Resolution revises and replaces TriMet’s existing Policy approved by the Board in February 2014 by Resolution 14-02-05. The Policy was originally approved by the Board in October 2012 by Resolution 12-10-89.

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.

6. Proposed Updates

The Policy updates are minimal in that the document was reformatted to be consistent with other TriMet policy statements and definitions were checked and modified as necessary to be consistent with TriMet's Investment Policy that was approved by the Board in January 2016 by Resolution 16-01-01.

The Policy continues to maintain recommended minimum requirements for Budgeted Contingency at 3% of Total Operating Requirements, and; Unrestricted Fund Balance at 2.5 times the appropriated average monthly operating expenditures for the upcoming year.

These standards are long-standing practices of TriMet and were thoroughly reviewed by the Board Finance Committee as part of the Strategic Financial Plan. The fund balance allows TriMet time to respond to financial downturns and to find the least impactful corrective actions coupled with time for meaningful public input.

7. Impact if Not Approved

The Board may make additional recommendations for revisions to the Policy, which would be resubmitted to the Board for approval at a later date. Further revisions are not recommended.

DB/LB/pc

RESOLUTION 16-02-10

**RESOLUTION OF THE TRI-COUNTY METROPOLITAN
TRANSPORTATION DISTRICT OF OREGON (TRIMET) ADOPTING A
REVISED UNRESTRICTED FUND BALANCE AND CONTINGENCY
POLICY**

WHEREAS, the TriMet Board of Directors ("Board") originally approved an Unrestricted Fund Balance and Contingency Policy ("Policy") on October 24, 2012 by Resolution 12-10-89, and approved a revised Policy on February 26, 2014 by Resolution 14-02-05; and

WHEREAS, the Policy is subject to bi-annual review as provided in the Policy; and

WHEREAS, the Board now desires to approve a revised Policy as set forth in the attached Exhibit A;

NOW, THEREFORE, BE IT RESOLVED:

That the TriMet Unrestricted Fund Balance and Contingency Policy is hereby revised and approved as set forth in the attached and incorporated Exhibit A.

Dated: February 24, 2016

Presiding Officer

Attest:

Recording Secretary

Approved as to Legal Sufficiency:



Legal Department



UNRESTRICTED FUND BALANCE AND CONTINGENCY POLICY – FEBRUARY 2016

Resolution 16-02-10

Exhibit A

Policy Statement

It is the policy of the Tri-County Metropolitan Transportation District of Oregon (“TriMet” or “the District”) to ensure that sufficient financial resources are maintained for unanticipated expenditures or revenue shortfalls.

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1.0 PURPOSE

This policy provides guidelines for budgeting and throughout the year, to ensure that sufficient financial resources are maintained for unanticipated expenditures or revenue shortfalls. The Policy also preserves flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The 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.

2.0 DEFINITIONS

Fund Balance

Fund Balance is the difference between assets, liabilities and deferred balances of the District (also referred to as “Net Position”). Fund Balance is tracked in two categories (1) **Unrestricted**, or (2) **Restricted**.

Unrestricted Fund Balance

Unrestricted fund balance includes general funds used to provide for operating, capital project expenditures and daily liquidity requirements. 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.

Restricted Fund Balance

Restricted funds are assets set aside to meet externally imposed legal and contractual obligations. Restricted funds are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first. These funds are not addressed in this policy due to the nature of their restrictions.

Contingency

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.

3.0 MINIMUM REQUIREMENTS

3.1 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.

3.2 Unrestricted Fund Balance

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

4.0 REPLENISHMENT PLAN

If the Unrestricted 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.

5.0 REPORTING REQUIREMENTS

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.

6.0 POLICY ADOPTION

This Unrestricted Fund Balance and Contingency Policy shall be reviewed and adopted by the Board of Directors bi-annually. Necessary revisions to the policy including Unrestricted Fund Balance minimums will be considered during this review process.