

AGENDA ITEM 2 C  
Action Item

**MEMORANDUM**

**DATE:** April 6, 2023  
**TO:** El Dorado County Transit Authority  
**FROM:** Matthew Mauk, Executive Director  
**SUBJECT:** Operating Reserve Fund

**REQUESTED ACTION:**  
**BY MOTION,**

**Adopt Resolution No. 23-13 designating an Operating Reserve Fund target of \$250,000 for Fiscal Year 2023/24**

**BACKGROUND**

The El Dorado County Transit Authority (El Dorado Transit) is a joint powers agency formed to provide public transportation services to the City of Placerville and the unincorporated areas of the western slope of El Dorado County. As a stand-alone, public agency, El Dorado Transit funds its operations and capital expenses with a combination of designated Federal, State, and local grant funds, along with a small percentage of revenue from fares charged to passengers. The agency does not derive financial support from the General or departmental funds of its member jurisdictions. Inherent with this independent funding structure, are risks associated with both revenue and spending requirements. These risks have been acute at various times in the agency's history, such as when the economic downturn of 2008 resulted in significant shortfalls of State tax-based revenue streams for public transit.

During the development of the Fiscal Year (FY) 2011/12 Operating Budget, the Board directed management to draft policy language to establish an operating reserve that would provide a transparent, stable source of funding to offset unexpected revenue shortfalls or increased expenses. The intent was to provide the Board with additional tools to proactively manage financial risk and protect El Dorado Transit's ability to provide vital public services in times of economic hardship.

On August 4, 2011, the El Dorado Transit Board adopted Resolution No. 11-26 and Board Policy B-2 (attached) establishing a Board-Designated Operating Reserve Fund. Board Policy B-2 also outlines procedures by which the Board and management staff may regularly calculate and adjust the target amount of reserve funds held in any given fiscal year. Section 4.02 states, "The Board may increase or decrease the Operating Reserve Funding amount by Resolution during the fiscal year."

In addition to the actions on August 4, 2011, establishing the Operating Reserve Fund and Policy, the El Dorado Transit Board adopted Resolution No. 11-27 designating an optimal minimum target funding amount. The amount was set at an average of three (3) months of operating finds or twenty-five percent (25%) of the previous annual operating budget, estimated at the time to be \$1,500,000.

In accordance with a recommendation in its 2013 Triennial Performance Audit, the El Dorado County Transportation Commission (EDCTC) and El Dorado Transit staff worked together to establish a Local Transportation Fund (LTF) Contingency Policy. The LTF Contingency was recommended in the event there is a decline in the sales tax collected in the LTF or an unexpected financial need for transit services. In 2014, EDCTC began to set aside 3% of Transit's Article 4 allocation to fund the contingency up to a maximum amount of \$500,000.

The El Dorado Transit Board approved Resolution No. 18-16 on April 5, 2018, lowering the total Operating Reserve target amount to \$1,000,000. With the full funding of the LTF Contingency Account held by EDCTC, El Dorado Transit management endorsed a blending of the two (2) accounts for a combined reserve funding target of \$1,500,000. The total balance of the two (2) accounts at the time in 2018, was approximately \$600,000.

On May 5, 2022, EDCTC approved a revision to their LTF Contingency Policy, increasing the maximum amount to \$750,000 and fully funded it with a one-time LTF contribution of \$250,000 in FY 2022/23.

## **DISCUSSION**

As of February 2023, the Operating Reserve account balance held by El Dorado Transit stood at \$223,569, making the combined operating reserves available to El Dorado Transit approximately \$974,000. This amount represents less than eleven percent (11%) of the adjusted El Dorado Transit Mid-Year Operating Budget for FY2022/23.

After review of the Operating Budget and considering the fund balances that have accumulated in the LTF Contingency fund and El Dorado Transit Operating Reserve, management of EDCTC and El Dorado Transit are proposing increasing the target amount to \$2,000,000 in the LTF Contingency fund and a one-time LTF contribution of \$1,250,000 in FY 2023/24. Pending approval of the increase to the contingency held by EDCTC, staff recommends lowering the funding target for the El Dorado Transit held Operating Reserve Fund to \$250,000. With approval of the two (2) coordinated Board actions, the combined operating reserve target for El Dorado Transit will be \$2.25 mil.

## **FISCAL IMPACT**

None. The requested action is to lower the funding target for the El Dorado Transit held Operating Reserve Fund to \$250,000. Pending EDCTC approval of the recommended increase to the LTF Contingency Fund, the combined operating reserve will be ninety-nine percent (99%) funded at a current combined balance of \$2,223,570. This represents approximately twenty-three percent (23%) of the Preliminary El Dorado Transit Operating Budget for FY2023/24.

**EL DORADO COUNTY TRANSIT AUTHORITY  
RESOLUTION NO. 23-13**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE EL DORADO COUNTY  
TRANSIT AUTHORITY DESIGNATING THE OPERATING RESERVE FUND TARGET  
FUNDING LEVEL**

**WHEREAS**, By Resolution No. 11-26 the El Dorado County Transit Authority (El Dorado Transit) Board of Directors (Board) adopted a Board-Designated Operating Reserve Fund Policy setting forth its procedures for establishment of an Operating Reserve Fund, in order to provide financial flexibility and stability for the continued operations of El Dorado Transit; and

**WHEREAS**, the Board has designated non-tax based revenues to be used to fund such an Operating Reserve; and

**WHEREAS**, in order to provide adequate and appropriate funding to an Operating Reserve Fund, Board wishes to set an optimal minimum operating reserve level.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the El Dorado County Transit Authority as follows:

1. The Board hereby sets an optimum minimum operating reserve level for an Operating Reserve Fund at \$250,000.
2. The projected amount of funding for the Operating Reserve Fund shall be determined annually during each budget process by El Dorado Transit management staff, based on actual expenditures, planned service reductions or expansions and adjustments for extraordinary expenditures.
3. The Operating Reserve Fund for each fiscal year shall be funded prior to the year-end closing of the preceding year, subject to Board approval.

**NOW, THEREFORE, BE IT FURTHER RESOLVED**, This Resolution supersedes Resolution No. 18-16.

**PASSED AND ADOPTED BY THE GOVERNING BOARD OF THE EL DORADO COUNTY TRANSIT AUTHORITY** at the regular meeting of said Board held on the 6th day of April 2023, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

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Jackie Neau, Chairperson

ATTEST:

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Megan Wilcher, Secretary to the Board

# EL DORADO COUNTY TRANSIT AUTHORITY

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Subject	Policy Number	Date Adopted
Operating Reserve Policy	B-2	August 4, 2011

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## BOARD-DESIGNATED OPERATING RESERVE POLICY

### 1.0 INTRODUCTION

The El Dorado County Transit Authority's Board of Directors ("Board") may establish any reserves it deems necessary for the El Dorado County Transit Authority (El Dorado Transit) to conduct business in a fiscally responsible manner.

#### 1.01 Purpose

The purpose of the Board-Designated Operating Reserve Fund is to establish and maintain a fund that will provide sufficient financial resources to assure timely payment of the operating expenses of El Dorado Transit as authorized and defined by the Board.

#### 1.02 Objective

Objectives of an Operating Reserve Fund are:

- A. To provide adequate funds to support legitimate operating expenditures;
- B. To enable El Dorado Transit to sustain operations through delays in the receipt of committed funds and to accept reimbursable contracts and grants without jeopardizing ongoing operations;
- C. To promote public confidence in the long-term sustainability of El Dorado Transit by preventing chronic cash flow crises; and
- D. To create an internal line of credit to manage cash flow and maintain financial flexibility.

### 2.00 ESTABLISHING A RESERVE

Any Board-Directed Operating Reserve Fund shall be established by resolution with a majority vote of the Board.

#### 2.01 Calculating the Reserve Amount

The recommended amount required for the Operating Reserve Fund is calculated by agency management staff based on actual expenditure history, planned service reductions/expansions plus adjustments for extraordinary expenditures (e.g. one-time expenditures).

#### 2.02 Frequency of Calculation

Each fiscal year, during the budget process, the amount to fund the Operating Reserve Fund will be reevaluated by management staff to determine the projected amount of funds that should be made available to fund the Operating Reserve Fund.

### **2.03 Board Review**

Based on this analysis, management staff shall make a recommendation to the Board during the budget adoption process for review and formal Board approval.

### **2.04 Funding the Operating Reserve Account**

The Operating Reserve Fund shall be funded to the Board designated amount prior to the year-end closing of each fiscal year to ensure and preserve El Dorado Transit's ability to perform its legal obligations.

### **3.04 Reporting**

The Board will receive quarterly investment reports for the Operating Reserve Fund as either a separate report or a component of financial statements.

### **4.0 Use of the Designated Reserve**

The Operating Reserve Fund will cover specific expenditures.

#### **4.01 Board Approval for Use**

All expenditures paid from the Operating Reserve Fund or changes to this Board-Designated Operating Reserve Policy shall require prior Board approval.

#### **4.02 Board Amendments to the Designated Operating Reserve Funding Amount**

The Board may increase or decrease the Operating Reserve Funding amount by Resolution during the fiscal year.

### **5.00 EFFECTIVE DATE**

This Policy shall be effective upon its adoption and shall supersede all prior policies, amendments, letters of intent, or positions of El Dorado Transit on this subject.

#### **5.01 Board Resolutions**

Resolution Number 11-26  
Resolution Number 11-27

Date Board Approved: August 4, 2011