



Central Florida Regional Transportation Authority
Policies and Procedures

Policy: Reserve Policy

Issuing Dept.: Finance

Effective Date: 9/24/20

Approved By:

James E. Harrison, Esq., P.E.
Chief Executive Officer

SCOPE

To document the reserve policy which applies to the LYNX reserves in order to formalize the process and appropriately address the establishment and use of reserves. LYNX' Reserve Policy is based on sound fiscal principles designed to allow LYNX to maintain continuation of operations in adverse conditions. The LYNX Board realizes that it is essential for governments to maintain adequate levels of reserves to mitigate current and future risks such as revenue shortfalls, emergencies, natural disasters, and unanticipated expenditures.

SUMMARY

The Reserve Policy is essential to maintain adequate levels of reserves to mitigate current and future risks and is based on sound fiscal principles. LYNX' Reserves categories are as follows:

- **Reserves for Operations (Cash Reserves)** to be used for short term cash flow purposes.
- **Reserves for Contingency (Emergencies)** to be used in the case of a major storm or other unforeseen disaster. This contingency may also be used to protect the Authority from unexpected cost increases or significant revenue declines which may impact on-going operations.
- **Reserves for Capital Funds and Debt Service** to fund the future infrastructure pertaining to items and/or projects included in the annual capital budget.
- **Reserves for Self-Insurance Programs** to ensure financial viability for Workers Compensation and General Liability Claims.
- **Reserves for Fuel Stabilization** to eliminate some of the pricing volatility and provided budget stabilization in combination with a fuel hedging program.
- **Budget Stabilization Fund** to offset the impact of revenue decline or cost increase during periods of economic uncertainty, natural disaster, pandemic or a declared state of emergency.

AUTHORITY:

Board of Directors



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OBJECTIVE: To create a Reserve Fund Policy.

POLICY: This Reserve Fund Policy applies to reserves of the Central Florida Regional Transportation Authority ("LYNX" or "Authority").

WHEREAS, the LYNX Board of Directors realize that it is essential for LYNX to maintain adequate levels of reserves to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable customer fares; and

WHEREAS, LYNX' reserve policies are based on sound fiscal principles designed to allow LYNX to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to Federal, State, and local funding partners; and

WHEREAS, LYNX realizes that adequate reserve fund balance levels are an essential component of LYNX' overall financial management strategy and a key factor in external agencies' measurement of LYNX' financial strength; and

WHEREAS, the Government Finance Officers Association of the United States and Canada (GFOA) recommends a minimum general fund reserve of no less than five to fifteen percent of operating revenues, or no less than one to two months of regular operating expenditures; and

WHEREAS, LYNX lies within a central zone susceptible to hurricane and storm damage; and

WHEREAS, there exists uncertainty in the economic markets around the world, especially in regards to the cost of fuel, taxes, personnel costs, medical insurance costs, and general inflation; and

WHEREAS, LYNX' facilities and fleet require increasing repair and replacement; and

WHEREAS, LYNX wishes to mitigate other forms of uncertainty such as:

- Unanticipated changes in taxes and spending policies of federal, state, and county governments;
- Imposition of mandates by federal, state, and county governments or the courts;
- Financial impacts of labor agreements, particularly those stemming from collective bargaining;
- Financial impacts of workers compensation, general liability, and medical claims;
- Unforeseen increases in energy and fuel costs; and

WHEREAS, clarification is needed as to the amounts to be set forth in each reserve fund balance, reserves, stabilization funds, and rainy day funds, are all used interchangeably, thus leading to misinterpretations.



NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF LYNX, AS FOLLOWS:

SECTION 1. The LYNX Board of Directors hereby establishes the following Reserves Fund Policy, pursuant to this Rule and as set forth below. The use of such reserves must be approved by the LYNX Board of Directors.

SECTION 2. Enterprise Fund

The components of the Enterprise Fund Reserves are the following:

1. Reserves for Operations (Cash Reserves)

This Reserve Fund should maintain a reserve of forty-five to sixty days of regular operating expenditures, or fifteen to twenty percent of regular operating expenditures, and can be used for short term cash flow purposes, or to ensure adequate resources for operating purposes at the beginning of the LYNX fiscal year. The cash reserve also helps to protect LYNX in the event it must respond to a natural or man-made disaster. This reserve may also be used to fund one-time capital outlay.

2. Reserves for Contingency (Emergencies)

This Reserve Fund should maintain a contingency reserve at a not to exceed 5% of the total LYNX annual budget. The contingency is commonly known as the emergency reserve to be used in the case of a major storm or other unforeseen disaster. The contingency reserve may also be used to cover unanticipated expenditures of a non-recurring nature, to meet unexpected immediate increases in service delivery costs, and to temporarily maintain service levels in the event that an economic downturn should cause a shortfall in revenues.

3. Reserve for Capital Funds and Debt Service

In the event that the Operating Reserve balance exceeds the amount set forth in this policy, the excess will be transferred to Reserves for Capital. The goal of this Reserve will be to fund future infrastructure that are included in LYNX' annual capital budget. To the extent LYNX is required to maintain any debt service reserves as a part of any loan covenants, this Reserve for Capital could also be used to meet those requirements.

4. Reserve for Self-Insurance Programs

A. Workers Compensation and General Liability Claims

LYNX should maintain, in regard to workers compensation and general liability claims, a reserve equal to 80% to 90% undiscounted confidence level of the annual actuarial study. Risk management programs include workers compensation, bus and auto liability, general liability, and property claims. Due to the nature of workers compensation claims, i.e. extended time frames and uncertainty regarding resolution, the actuary must develop recommended reserves for the fund based on percentage levels of confidence. Because of the inherent risk of catastrophic losses associated with the operation of vehicles, a conservative approach should be taken when establishing the amount of



reserves. LYNX holds to the conservative side of the recommendations, 80%. In addition, should a claim be made against LYNX that is identified subsequent to the actuarial report and prior to the issuance of the Comprehensive Annual Financial Report that is financially material to the fund and highly likely to succeed, additional monies should be added to these reserves to provide adequate funds in reserve. Insurance and safety industry best practices will be employed to militate against these risks.

B. Medical Benefit Claims

Recent history has shown that medical costs for LYNX are escalating at a rate beyond normal growth. The reserve for Medical Benefits Claims should be maintained in accordance with the annual actuarial analysis to ensure financial viability. The State of Florida reserve for self-insured plans is two months (or 16.67%) of projected claims. LYNX should establish a reserve to assist in offsetting the increasing cost of health insurance, with the reserve to be funded via reserving excess revenues to meet the minimum of two months of projected claims. LYNX will procure an actuarial study annually and will take a conservative approach when establishing the amount of reserves required.

5. Reserves for Fuel Stabilization

In 2011, LYNX establish a fuel hedging program to curtail some of the extreme volatility experienced in the price of fuel. The hedging program is not meant to "out-guess" the market for fuel, but rather is an attempt to eliminate some of the pricing volatility and provided budget stabilization. In addition to this hedging program, LYNX should establish a Fuel Stabilization Reserve to provide LYNX, and ultimately our funding partners, some assurance of price and funding stability, as it pertains to the costs of fuel. The reserve will be funded via reserving excess revenues and generally be equal to \$1,000,000.

6. Compensated Absence Reserve

The liability for Compensated Absences (payments to employees who retire or leave LYNX for accumulated benefits) will be fully funded on a current basis unless deemed impractical or unavailable for accounting reasons by the Chief Executive Officer or designee.

7. Replenishment of Reserve Balance

If the reserves are less than the amounts per this Policy, the Chief Executive Officer or designee shall submit a plan to the Board for expenditure reductions and/or revenue increases. The Board shall review and amend the plan as a part of the annual budget review.

All corresponding calculations and interpretation of calculations of a definitive nature will be determined by the Chief Executive Officer or designee.

The policy will be reviewed internally every three years or when deemed necessary by the Finance Department for the possibility of amendments to be presented to the Board.



8. Budget Stabilization Fund

The Budget Stabilization Fund balance equals the aggregate unrestricted net position adjusted for long term liabilities greater than the annual fully funded Authority Reserve (denoted as sections 1-7 above). This stabilization fund was created to:

- Provide liquid financial reserves which could be drawn upon to counteract the risk of serious disturbance to the United States economy or its supporting financial systems,
- Limit the need for LYNX to request funding partner payment advances or borrow operating capital under distressed circumstances with unfavorable repayment terms,
- Allow the budget stabilization fund's resources to remain in interest bearing accounts along with any investment returns which may help to decrease future funding partner annual budgetary contributions,
- Promote a permanent framework which will allow critical operations to continue in the event of natural disaster, pandemic, war or other act of God. This framework should consider possible outcomes from increased reliance on public transportation during and after a root causation event, and after a root causation event, and
- Provide flexibility to make emergency purchases to support the essential nature of the Authority's business for the traveling public and LYNX staff; pending Board of Director approval.

By establishing a separate fund from the existing LYNX Reserve, the Authority will ensure resources are readily available during uncertain times. During periods when LYNX's actual expenditures exceed the adopted operating budget staff would seek Board approval to utilize the Reserve balance before requesting Authorization to balance the budget with stabilization funds. Furthermore, balances held between LYNX Reserve and the Budget Stabilization Fund would be reviewed annually, and any transfers required will be approved by the LYNX Board of Directors. By establishing Board oversight of deposits, withdrawals, and savings targets, the Authority will ensure budget stabilization funds in excess of the LYNX reserve requirement are closely held, adequately managed, and properly monitored.

**PASSED AND DULY ADOPTED BY THE BOARD OF DIRECTORS OF LYNX,
this 24 day of September, 2020.**

BOARD OF DIRECTORS OF LYNX

By: _____


Chairman



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ATTEST:

By: Rose Hernandez