

Resolution No. 1989-10

ADOPTING FINANCIAL POLICIES FOR THE
GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

WHEREAS, the Board of Trustees is charged with the responsibility under the Ohio Revised Code Chapter 306 to manage and conduct the affairs of the Greater Cleveland Regional Transit Authority in accordance with rules and regulations established to control the administration of the acquisition, operation, maintenance, and improvement of public transit facilities; and

WHEREAS, the Greater Cleveland Regional Transit Authority receives substantial sums of money from passenger fares, tax proceeds, grants, loans, and other sources to acquire, operate, maintain, and improve its public transit facilities; and

WHEREAS, having a clearly-defined set of Financial Policies for the management of the financial resources of the Greater Cleveland Regional Transit Authority will assist the Board of Trustees and management in exercising their responsibilities in the public interest,

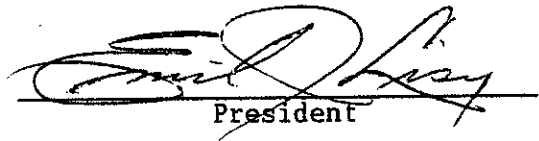
NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Greater Cleveland Regional Transit Authority, Cuyahoga County, Ohio:

Section 1. That the Financial Policies shown in Attachment A hereto are hereby adopted as official policy of the Authority.

Section 2. That the General Manager/Secretary-Treasurer of the Authority is hereby authorized to undertake the necessary actions to implement these Financial Policies.

Section 3. That this Resolution shall become effective immediately upon its adoption.

Adopted: January 24, 1989


President

Attest: Ronald J. Lee
General Manager/Secretary-Treasurer

ATTACHMENT A
RESOLUTION NO. 1989 -

GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY

FINANCIAL POLICIES

1.0 PURPOSE/SCOPE

- 1.1 The Financial Policies described herein are designed to provide a comprehensive framework for the management of the revenues and financial resources of the Authority. They provide guidelines for decision-making by the Board of Trustees and management on how the financial resources of the Authority shall be used to achieve the Authority's mission to provide public transportation services; to meet the obligations of the Authority; and to protect the public interest.
- 1.2 The Financial Policies established herein cover the following areas:
 - a. General Fund
 - b. Capital Improvement Fund
 - c. Bond Retirement Fund
 - d. Insurance Fund
 - e. Supplemental Pension Fund
 - f. Investment of Authority Funds

2.0 LEGAL AUTHORITY

ORC Chapter 306 Regional Transit Authority as follows:

- 306.31 Creation of Authority
- 306.34 Board of Trustees to manage and conduct affairs
- 306.35 Powers and duties
- 306.37 Revenue Bonds
- 306.38 Bonds secured by trust agreement
- 306.40 General obligation bonds; final judgment bonds; use of proceeds; election; tax levy; anticipatory notes; issuance of obligation without vote.

3.0 GENERAL FUND POLICIES

- 3.1 PURPOSE: General Fund will be used to pay the day-to-day obligations of the Authority. All funds received and disbursed by the Authority will go through the General Fund with the exception of all capital improvement transactions and investment earnings.
- 3.2 Annual Appropriation Budget shall be approved by the Board of Trustees in December of each year for the ensuing fiscal year.
- 3.3 An Operating Reserve in an amount equal to at least one (1) month's operating expenses shall be budgeted each year to cover unforeseen or extraordinary fluctuations in revenue or expenses.
- 3.4 Policy objectives to control operating expenses will be:
 - a. Growth in the cost of delivering a unit of service (Cost per Service Hour) shall be kept at or below the rate of inflation.

b. The Operating Ratio (operating revenues divided by operating expenses) shall not be allowed to go below 25% with a long-range objective of having Operating Revenues cover an increasing proportion of Operating Expenses.

3.5 Management shall provide the Board of Trustees with at least quarterly reports on actual versus budget performance for revenues and expenses.

4.0 CAPITAL IMPROVEMENT FUND POLICIES

4.1 PURPOSE: The Capital Improvement Fund shall be used to account for the construction and acquisition of major capital facilities and equipment. It shall include funds to match Federal and State grants as well as funds to be used for capital construction and acquisition without the benefit of any grant funding.

4.2 Items that have a useful life in excess of one (1) year and an acquisition cost in excess of \$1,000.00 are considered to be capital expenditures to be paid for out of the Capital Improvement Fund.

4.3 An amount equivalent to ten (10) percent of sales tax revenues shall be allocated to the capital improvement fund on an annual basis.

4.4 During the annual budgeting process, a new projection will be made of the funding requirements needed to match outstanding and expected new grants and the funding requirements for proper maintenance of the Authority's assets and routine capital purchases. The funds needed to match grants will be encumbered accordingly. Any excess funds beyond grant matching requirements, including any projected new sales tax revenues not needed for matching requirements, will be used to fund other capital expenditures and projects.

4.5 The Authority will strive to take advantage of all available State and Federal grant programs for capital improvements including State of Ohio public transportation grants and Federal Highway Administration programs as well as the programs of the Urban Mass Transportation Administration, specifically Section 3 Discretionary grants and Section 9 Formula grants.

5.0 BOND RETIREMENT FUND

5.1 PURPOSE: The Bond Retirement Fund will be used to provide the funds necessary for the payment of principal and interest on debt obligations.

5.2 Payment of debt service on the outstanding unvoted general obligation bonds of the Authority is secured by a pledge of all revenues of the Authority, except those specifically limited to another use or prohibited from that use by the Ohio Constitution, state or federal law, or any revenue bond trust agreement that the Authority might enter into. While in practice that debt service has been and is paid from the receipts of the Authority's sales and use tax, that debt service

is also payable, in the event it is not paid from other sources, from the proceeds of the levy by the Authority of ad valorem taxes within the ten-mill limitation imposed by Ohio law. The Authority can also, with the approval of the voters of the Authority, issue general obligation bonds secured by a pledge of and the authority to levy and collect ad valorem property taxes that are unlimited as to amount or rate.

- 5.3 The limits for general obligation debt of the Authority payable from voted or unvoted property taxes are governed by Ohio law which provides that the net principal amount of that debt may not exceed five percent of the total assessed valuation of properties within the territory of the Authority. The Authority's current outstanding debt is exempt from this limitation because, as provided by Ohio law applicable to unvoted general obligation bonds of a regional transit authority, the Authority's fiscal officer in connection with each issue of its unvoted general obligation bonds certified that revenues of the Authority from sources other than property taxes, after paying operation and maintenance expenses of the facilities financed by those bonds and any money required for the payment of any revenue bonds of the Authority, would be sufficient to pay the debt service on those bonds.

There are two indirect limits for unvoted exempt debt, such as the outstanding debt of the Authority. First, the debt service (principal and interest) in any year may not exceed one-tenth of one percent (0.1%) of the total assessed valuation of the properties within Cuyahoga County. Second, this unvoted debt plus other similar debt of all overlapping jurisdictions in the County cannot require a tax rate in excess of ten mills, whether or not a tax is actually levied.

None of the above debt limitations apply to revenue bonds, which are secured only by a pledge of and a lien on the revenues of the Authority, or to notes issued in anticipation of the collection of current revenues, which notes have a maximum six months' maturity.

- 5.4 Each month, as required by a resolution of the Board of Trustees, sales and use tax revenues in an amount, together with anticipated investment earnings on the amounts deposited, calculated to accumulate sufficient funds to meet the next ensuing principal and interest payments due on the Authority's unvoted general obligation notes and bonds issued after January 20, 1981, is deposited in the Bond Retirement Fund. The balance in that Fund will drop to a near zero balance once each year in conformance with federal tax law restrictions on arbitrage earnings.

5.5 Debt financing may be used only under the following conditions:

- a. For major capital projects with a useful life of not less than of fifteen (15) years or when the useful life of the project will exceed the term of the debt by a factor of one and one-half (1.5); and
- b. When expected future revenues are projected to be sufficient to cover principal and interest payments; and in the case of unvoted general obligations, when the certification described in 5.3 can be made.
- c. That the amount of total outstanding debt or debt service payments for the Authority shall not exceed statutory limitations; and
- d. When a thorough study has been made of the best debt financing vehicles or structure available.

6.0 INSURANCE FUND

- 6.1 PURPOSE: The Insurance Fund will be used to provide resources to protect against future catastrophic or extraordinary losses. It is not used to pay ordinary and routine losses of the Authority incurred on an on-going basis and handled by the Claims Department of the Authority.
- 6.2 The Authority is self-insured in all areas with the exception of personal property and equipment. Insurance for property and equipment losses for events other than vehicular accidents is to be purchased on the open insurance market.
- 6.3 The minimum balance to be maintained in the Insurance Fund shall be \$10 million.
- 6.4 Upon attaining the minimum balance, additional funds will be allocated to the Insurance Fund during the annual budgeting process based upon the results of periodic actuarial studies of the Fund to assess its sufficiency. Actual placement of additional funds into the Insurance Fund may occur at any time during the fiscal year when cash flow requirements permit same provided that such placement shall occur by no later than September 1st of each year.
- 6.5 In the event that the Insurance Fund is used to pay a catastrophic loss, the Board of Trustees will determine a schedule for replenishment of the Fund up to the minimum amount provided for in item 6.3 above.

- 6.6 Every two years an evaluation, including appropriate actuarial studies, of the Insurance Fund shall be conducted. The evaluation will determine:
- a. If the Fund as constructed herein is sufficient to provide adequate protection to the interests of the Authority.
 - b. If conditions in the open insurance market have changed so as to make the purchase of insurance coverage a viable, cost-effective alternative to the continued existence of the Fund.

7.0 SUPPLEMENTAL PENSION FUND

- 7.1 PURPOSE: The Supplemental Pension Fund will be used to account for the assets held by the Authority in a trustee capacity for payment of benefits relating primarily to certain retired employees of the Authority.
- 7.2 Employees covered by the Supplemental Pension Fund include:
- Retirees with pension credit from Cleveland Railway Company
 - Retirees with pension credit from Cleveland Interurban Railroad
 - Retirees and current employees who later retire from the Authority, having left a predecessor agency to serve in the armed forces and resuming employment with that predecessor or the Authority within the time specified
 - One retiree with a contractual arrangement for a special pension as a deferred compensation
 - Certain retirees on disability pension who retired before August 1, 1982
 - All other retirees and current employees who later retire from the Authority to the extent of a pension of \$3.00 per month
 - Certain surviving spouses of deceased retirees under options selected at retirement
- 7.3 Every two years an evaluation, including appropriate actuarial studies, shall be made of the Supplemental Pension Fund to determine the amounts required to meet expected obligations of the Fund. Any additional funds determined to be needed will be allocated during the annual budgeting process of the Authority.

8.0 INVESTMENT OF AUTHORITY FUNDS

- 8.1 OBJECTIVE: Achieve the maximum financial return for the Authority consistent with prudent market and credit risks while conforming to applicable State and Federal laws and consistent with the cash flow requirements of the Authority, matching maturities and/or marketability at par, to meet outstanding obligations and financial commitments.

- 8.2 Selection of instruments of investment is governed by the Ohio Depository Act. Instruments available for investment include:
- a. Repurchase Agreements of U. S. Government Securities and Government-guaranteed Agency Securities.
 - b. Secured Certificates of Deposit.
 - c. U. S. Government Securities (Treasury bills, notes and bonds).
 - d. Securities of agencies which are guaranteed by the U. S. Government, such as FNMA (Federal National Mortgage Association), FHLB (Federal Home Loan Bank), and GNMA (Government National Mortgage Association).
- 8.3 Detailed records of all transactions concerning the investment of Authority funds shall be maintained. These records will be subject to periodic review. Duplicate records will be kept in two locations to protect against loss or damage.
- 8.4 Appropriate checks and balances shall be maintained in the decision-making process concerning investment transactions to insure adequate protection of the public interest and minimize the potential for fraud.
- 8.5 Each month a report summarizing investment transactions and earnings will be prepared for submission to the Board of Trustees. An inventory report of all investments will be provided as of the close of business each month.

9.0 PERIODIC REVIEW AND AMENDMENT

- 9.1 The financial policies delineated herein shall be subject to review and revision by the Board of Trustees, at least once biennially in even-numbered years. This does not preclude the Board of Trustees from revising specific policies included herein or from adding additional policies should the Board of Trustees determine that the best interests of the public and/or the Authority would be served by making such a revision.
- 9.2 Amendments or revisions to these financial policies can be initiated or proposed by any member of the Board of Trustees or by the General Manager of the Authority.
- 9.3 Proposed amendments or revisions to these financial policies shall be subject to review and study by the Finance Committee of the Board of Trustees. The Finance Committee will make recommendations on any proposed amendment or revision to the Board of Trustees. The Board of Trustees must approve any amendment or revision by majority vote, as defined in the By-Laws, before said amendment or revision will become official policy of the Authority.