

RESOLUTION NO. 2012-112

AMENDING RESOLUTION 2011-079 (THE FINANCIAL POLICIES OF THE GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY) TO ESTABLISH A ROLLING STOCK REPLACEMENT FUND

WHEREAS, the Board of Trustees adopted the amended Financial Policies on September 20, 2011, per Resolution No. 2011-079. The original Financial Policies were adopted on January 24, 1989, per Resolution No. 1989-10, as amended on November 21, 1989, per Resolution No. 1989-166, as amended on July 21, 1998, per Resolution No. 1998-90; and

WHEREAS, the Greater Cleveland Regional Transit Authority (Authority) Financial Policies are subject to review and revision by the Board of Trustees; and

WHEREAS, it is in the best interest of the Authority to amend Section 3.0 of the Financial Policies to add Section 3.6, establishing a Rolling Stock Replacement Fund.

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

Section 1. That Section 3.0 of the Financial Policies be amended to add Section 3.6, establishing a Rolling Stock Replacement Fund.

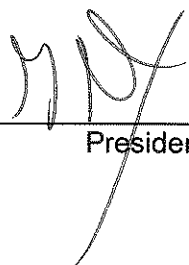
Section 2. That the revised Financial Policies of the Greater Cleveland Regional Transit Authority, a copy of which is attached hereto and fully incorporated herein and made a part of this resolution, are hereby adopted as the policy of the Greater Cleveland Regional Transit Authority.

Section 3. That the Board of Trustees may review and revise the Financial Policies every three 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.

Section 4. That this resolution shall become effective immediately upon its adoption.

Attachment: Financial Policies

Adopted: December 18, 2012



President

Attest: 

CEO, General Manager/Secretary-Treasurer

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. Law Enforcement Fund
 - g. 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 operating obligations of the Authority.
- 3.2 Annual Appropriation Budget shall be approved by the Board of Trustees by December 31st of each year for the ensuing fiscal year.
- 3.3 Policy objectives to measure and/or control operating expenses and revenues will be:
 - a. The Operating Ratio (operating revenues divided by operating expenses) shall not be allowed to be below 25% with a long-range objective of having Operating Revenue cover an increasing proportion of Operating Expenses.

- b. 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.
- c. Growth in the cost of delivering a unit of service (Cost per Service Hour) shall be kept at or below the rate of inflation.
- d. Debt service coverage (total operating revenue minus operating expenditures divided by debt service requirements) shall be kept to a minimum of 1.5.

Note: Operating expenses, where applicable, shall be defined to include capitalized operating expenses.

- 3.4 Management shall provide the Board of Trustees with at least quarterly reports on actual versus budget performance for revenues and expenses.
- 3.5 Reserve Funds may be established and maintained to protect the Authority from economic downturns such as the Great Recession of 2008-2009. The Reserve Funds and criteria for management and balances are as follows:
 - a. Reserve for Fuel: Fuel prices have become increasingly volatile since 2007 and are now the second highest operating cost for the Authority. It is, therefore, prudent to establish a reserve designed to protect the Authority from a significant and continuing rise in fuel prices. Annual savings resulting when actual expenditures are less than the budgeted line item for fuel may be placed in this fund.
 - b. Reserve for Compensated Absences: Audits have recommended that a reserve should be established to ensure payment of over \$9 million in charges the Authority will eventually pay to employees for vacation that has been earned. This reserve shall not exceed 25% of estimated payments of this type.
 - c. Reserve for Hospitalization: The Authority is self-funded for health care and hospitalization costs. A reserve may be established to protect against substantial cost increases from unfunded mandates or out of the ordinary costs for catastrophic illnesses. The reserve shall not exceed 10% of annual hospitalization costs.
- 3.6 A Rolling Stock Replacement Fund may be established to set aside funds to systematically replace aging revenue vehicles. From 2012 to 2024 the Authority must set aside monies to replace 265 buses and 60 rail cars. A replacement of this magnitude will require more than \$300 million. The Authority cannot rely on grants alone to meet this need. Funds should be amassed in this replacement fund and then transferred to the Capital Improvement Fund to assist in meeting this major capital requirement.

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 The Authority will strive to take advantage of all available State and Federal grant and other financing programs for capital improvements including but not limited to State of Ohio public transportation grants and Federal Highway Administration programs as well as the programs of the Federal Transit Administration.
- 4.3 Items that have a useful life in excess of one (1) year and an acquisition cost in excess of \$5,000.00 are considered to be capital expenditures to be paid for out of the Capital Improvement Fund.
- 4.4 An amount equivalent to at least ten (10) percent but not more than fifteen (15) percent of sales tax revenues shall be allocated to the capital improvement on an annual basis. This amount shall be allocated directly to the Capital Improvement Fund to support budgeted projects or to the Bond Retirement Fund to support debt service payments.
- 4.5 Recognizing that the capital program requires a critical balance between maintenance of existing assets and expansion efforts, the following policy objective will be used to develop the annual capital budget. The percent (%) of capital maintenance outlay to capital expansion outlay will be a minimum of 75% and maximum of 90%.

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, 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 that of five (5) 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 revenue 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; and
 - 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 catastrophic or extraordinary losses. It is not used to pay ordinary and routine losses of the Authority incurred on an ongoing basis and handled by the Claims Department of the Authority.
- 6.2 The Authority is insured through both self insurance and purchased insurance. Purchased insurance for property and equipment losses as well as for liability is to be purchased on the open insurance market. The basis for the Insurance Fund structure and coverage levels shall be determined annually by the Risk Manager.
- 6.3 The minimum balance to be maintained in the Insurance Fund shall be determined by the Risk Manager on an annual basis taking into consideration the balance between self insurance and purchased insurance requirements.
- 6.4 Upon attaining the required 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 the 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 an 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 total insurance coverage a viable, cost-effective alternative to the continued existence of the Fund.

7.0 SUPPLEMENTAL PENSION FUND

- 7.1 PURPOSE: 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 LAW ENFORCEMENT FUND

- 8.1 PURPOSE: To account for monies received from the Federal Government as a result of GCRTA participation in federal law enforcement efforts leading to the seizure and forfeiture of property.
- 8.2 The expenditure of monies from the Law Enforcement Fund shall be in accordance with the guidelines established by the United States Attorney General on seizure and forfeiture of property, and shall be limited to expenditures not otherwise budgeted.

9.0 INVESTMENT OF AUTHORITY FUNDS

- 9.1 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.
- 9.2 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 U.S. Government agencies or instrumentalities, such as FNMA (Federal Home Loan Bank), and GNMA (Government National Mortgage Association).
 - e. State Treasury Asset Reserve of Ohio (Star Ohio) and other funds which may be permitted under Ohio Law.
- 9.3 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.
- 9.4 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.
- 9.5 Each month a report summarizing investment transactions and earnings will be prepared for submission to the Board of Trustees.

10.0 PERIODIC REVIEW AND AMENDMENT

- 10.1 The financial policies delineated herein shall be subject to review and revision by the Board of Trustees every three (3) 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.

- 10.2 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.
- 10.3 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.



Greater Cleveland Regional Transit Authority
STAFF SUMMARY AND COMMENTS

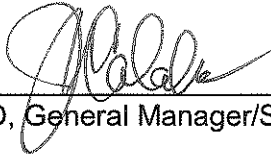
TITLE/DESCRIPTION: AMENDING GCRTA'S FINANCIAL POLICIES TO ESTABLISH A ROLLING STOCK REPLACEMENT FUND	Resolution No.: 2012 -112
	Date: December 13, 2012
	Initiator: Office of Management & Budget
ACTION REQUEST: <input checked="" type="checkbox"/> Approval <input type="checkbox"/> Review/Comment <input type="checkbox"/> Information Only <input type="checkbox"/> Other _____	

- 1.0 **PURPOSE/SCOPE:** This action will amend Financial Policies previously adopted through Resolution 2011-079, to reflect the changing needs of the Greater Cleveland Regional Transit Authority (GCRTA). This change would establish a Rolling Stock Replacement Fund. The change was discussed during budget discussions at the Finance Committee meeting on November 20, 2012.
- 2.0 **DESCRIPTION/JUSTIFICATION:** It is recommended that the Financial Policies of the Authority be amended to add Section 3.6 establishing a Rolling Stock Replacement Fund. The purpose of establishing and maintaining this reserve is to mitigate the expense of purchasing new revenue vehicles.
- 3.0 **PROCUREMENT BACKGROUND:** Not applicable.
- 4.0 **DBE/AFFIRMATIVE ACTION BACKGROUND:** Does not apply.
- 5.0 **POLICY IMPACT:** The major thrust of the revision is to assist with the process to set aside nearly \$100 million to replace about 200 buses over the next five years. GCRTA has been able to assemble about \$43 million toward this purpose, but another \$57 million is needed. Additional grants funds will be sought, but we must put aside local funds as part of a comprehensive plan to amass the funds needed for systematic replacement of revenue vehicles. The addition of the Rolling Stock Replacement Fund is the recognition that purchasing new revenue vehicles will be costly and that GCRTA is not likely to receive major grants from the federal government to fund the entire purchase. Once this initial replacement of buses is complete, GCRTA will have additional revenue vehicles to be replaced, including buses and rail cars. We must begin the process to prepare for those actions.
- 6.0 **ECONOMIC IMPACT:** As the revenue vehicle fleet continues to age, the cost of replacing these vehicles at one point in time is not achievable. GCRTA does not currently have, and will not in the future, \$100 million for vehicle replacement costs without specific action to set monies aside. A systematic replacement of approximately 35 buses per year should be instituted to smooth out the purchasing cycle and make the procurement sustainable.
- 7.0 **ALTERNATIVES:** The alternative would be to allow our revenue vehicle fleet to age and replace them at the 18 - 19 year mark instead of 12 - 15 years.

8.0 **RECOMMENDATION:** It is recommended that this resolution be adopted in its entirety. The Finance Committee has discussed this amendment to the Financial Policies and recommended it to the full Board for adoption.

9.0 **ATTACHMENT:** None

Recommended and certified as appropriate to the availability of funds, legal form and conformance with the Procurement requirements.



CEO, General Manager/Secretary-Treasurer