

RESOLUTION NO. 2017-15

AMENDING THE FINANCIAL POLICIES AND THE CODE OF RULES AND REGULATIONS OF THE GREATER CLEVELAND REGIONAL TRANSIT AUTHORITY TO ESTABLISH A 27<sup>th</sup> PAYROLL EXPENSE RESERVE FUND ACCOUNT

WHEREAS, the Board of Trustees adopted the amended Financial Policies on December 18, 2012, per Resolution No. 2012-112. 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, as amended on September 20, 2011, per Resolution No. 2011-79; and

WHEREAS, the Financial Policies, particularly Resolution Nos. 1998-90, adopted on July 21, 1998, 2011-79, adopted on September 20, 2011 and 2012-112, adopted on December 18, 2012, were codified in the Code of Rules and Regulations of the Greater Cleveland Regional Transit Authority; 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 the Financial Policies to establish a 27<sup>th</sup> payroll expense Reserve Fund account.

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

Section 1. That Sections 460.04(e) and (f) of the Code of Rules and Regulations be amended to establish a 27<sup>th</sup> payroll expense Reserve Fund account, by revising Sections 460.04(e) and (f) as follows:

(e) A Reserve Fund containing sub-accounts may be established and maintained to protect the Authority from economic downturns. The Reserve Fund sub-accounts and criteria for management and balances are as follows:

- (1) Reserve for fuel: Annual savings resulting when actual expenditures are less than the budgeted line item for fuel may be placed in this fund to protect the Authority from a significant and continuing rise in fuel prices.
- (2) Reserve for compensated absences: Excess funds from the General Fund may be placed in this fund to ensure payment to employees for vacation time that has been earned. This reserve shall not exceed twenty-five percent of the accrued liability for compensated absences.
- (3) Reserve for hospitalization: Excess funds from the General Fund may be placed in this fund to protect against substantial cost increases from unfunded mandates or out of the ordinary costs

for catastrophic illnesses. The reserve shall not exceed ten percent of annual hospitalization costs.

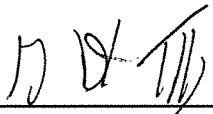
- (4) Reserve for 27th Payroll Expense: The Authority has two different payroll cycles; one cycle for hourly employees and one for salaried employees. Within each cycle, there is an extra pay date (27th payroll expense) that occurs every twelve years. This reserve shall be funded to the best of the Authority's ability in order to plan for this additional payroll expense.

(f) A Rolling Stock Replacement Fund account may be established to set aside funds to systematically replace aging revenue vehicles. Funds should be amassed in this replacement fund and then transferred to the Capital Improvement Fund to assist in meeting this major capital requirement.  
(Res. 2011-79. Passed 9-20-11; Res. 2012-112. Passed 12-18-12. Res. 2017-XX. Passed 3-XX-2017.)

Section 2. 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 3. That this resolution shall become effective immediately upon its adoption.

Adopted: March 21, 2017

  
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President

Attest:   
\_\_\_\_\_  
CEO, General Manager/Secretary-Treasurer



Greater Cleveland Regional Transit Authority  
**STAFF SUMMARY AND COMMENTS**

<b>TITLE/DESCRIPTION:</b>  <b>AMENDING GCRTA'S FINANCIAL POLICIES AND CODE OF RULES AND REGULATIONS TO ESTABLISH A 27<sup>TH</sup> PAYROLL EXPENSE RESERVE FUND ACCOUNT</b>	<b>Resolution No.:</b> 2017-15
	<b>Date:</b> March 16, 2017
	<b>Initiator:</b> Office of Management & Budget
<b>ACTION REQUEST:</b> <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 2012-112, to reflect the changing needs of the Greater Cleveland Regional Transit Authority ("GCRTA"). It will also amend section 460.04 of the Authority's codified rules and regulations. This change would establish a 27<sup>th</sup> payroll expense Reserve Fund account.
- 2.0 **DESCRIPTION/JUSTIFICATION:** It is recommended that the Code of Rules and Regulations and also the Financial Policies of the Authority be amended to establish a reserve account for a 27<sup>th</sup> payroll expense. The purpose of establishing and maintaining this reserve is to plan for an additional payroll expense.
- 3.0 **PROCUREMENT BACKGROUND:** Not applicable.
- 4.0 **DBE/AFFIRMATIVE ACTION BACKGROUND:** Does not apply.
- 5.0 **POLICY IMPACT:** This would assist in planning for known increases in GCRTA's largest expense, personnel. The Authority operates on two payroll cycles. One cycle is for salaried employees and the other for hourly employees. Within each cycle, an extra pay date (27<sup>th</sup> payroll) occurs every twelve years. Planning for this additional expense would mitigate substantial shifts in GCRTA's expenditures and allow the Authority to properly plan for the extra pay date.
- 6.0 **ECONOMIC IMPACT:** None
- 7.0 **ALTERNATIVES:** The alternative would be to not fund this additional payroll expense, thereby allowing the full impact of this additional expense to occur during the applicable fiscal year.
- 8.0 **RECOMMENDATION:** It is recommended that this resolution be adopted in its entirety. The change was discussed at the Finance Committee meeting March 7, 2017 and recommended to the full Board for adoption.
- 9.0 **ATTACHMENT:** Redline copy of revisions to Section 460.04 of the Code of Rules and Regulations

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

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CEO, General Manager/Secretary-Treasurer

460.04 GENERAL FUND.

(a) The General Fund will be used to pay the day-to-day operating obligations of the Authority.

(b) Annual appropriation budget shall be approved by the Board of Trustees by December 31 of each year for the ensuing fiscal year.

(c) Policy objectives to measure and/or control operating expenses and revenues will be:

- (1) The operating ratio (operating revenues divided by operating expenses) shall not be allowed to be below twenty-five percent with a long-range objective of having operating revenue cover an increasing proportion of operating expenses.
- (2) An operating reserve in an amount equal to at least one month's operating expenses shall be budgeted each year to cover unforeseen or extraordinary fluctuations in revenue or expenses.
- (3) Growth in the cost of delivering a unit of service (cost per service hour) shall be kept at or below the rate of inflation.
- (4) 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.

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

(e) A Reserve fundsFund containing sub-accounts may be established and maintained to protect the Authority from economic downturns ~~such as the Great Recession of 2008-2009~~. The Reserve Funds sub-accounts and criteria for management and balances are as follows:

- (1) 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 to protect the Authority from a significant and continuing rise in fuel prices.
- (2) Reserve for compensated absences: Excess funds from the General Fund may be placed in this fund Audits have recommended that a reserve should be established to ensure payment of over nine million dollars (\$9,000,000) in charges the Authority will eventually pay to employees for vacation time that has been earned. This reserve shall not exceed twenty-five percent of the accrued liability for compensated absences.

(3) **Reserve for hospitalization:** ~~The Authority is self-funded for health care and hospitalization costs. A reserve may be established~~Excess funds from the General Fund may be placed in this fund to protect against substantial cost increases from unfunded mandates or out of the ordinary costs for catastrophic illnesses. The reserve shall not exceed ten percent of annual hospitalization costs.

(4) Reserve for 27<sup>th</sup> Payroll Expense: The Authority has two different payroll cycles: one cycle for hourly employees and one for salaried employees. Within each cycle, there is an extra pay date (27<sup>th</sup> payroll expense) that occurs every twelve years. This reserve shall be funded to the best of the Authority's ability in order to plan for this additional payroll expense.

(f) **A Rolling Stock Replacement Fund** account 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 three hundred million dollars (\$300,000,000). 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.**

**(Res. 2011-79. Passed 9-20-11; Res. 2012-112. Passed 12-18-12. Res. 2016-XX  
Passed 3-XX-16.)**