STAFF REPORT

MEETING DATE:	**2/26/13**
SUBJECT:	**Revision of Redding Area Bus Authority (RABA) Reserve Policy**
AGENDA ITEM:	**11**
STAFF CONTACT:	**Dave Wallace**

SUMMARY:
SRTA maintains a Redding Area Bus Authority (RABA) reserve fund with the county auditor to bridge temporary gaps in public transportation funding. SRTA could be more responsive to RABA's cash flow by holding the reserve fund in a SRTA account. It is proposed that $1.0 million from prior year overpayments to RABA be returned to SRTA to establish the new reserve. The current RABA reserve of $1.2 million, held by the county auditor, would then be distributed to local agencies. The net effect is a transit reserve reduced to $1.0 million and held by SRTA, and an increase of over $1.2 million for local agency streets and roads.

STAFF RECOMMENDATIONS:
It is recommended that the board of directors:
1. Authorize elimination of the $1.2 million RABA reserve held by the county auditor, making funds available for distribution to claimants in the upcoming budget;
2. Authorize a $1.0 million reserve, with prior RABA overpayment, to be deposited in a dedicated SRTA reserve account; and
3. Approve attached policy section 428 related to the $1.0 million reserve loan fund.

DISCUSSION:
SRTA maintains a RABA reserve fund with the county auditor of about $1.2 million. This fund is used for short-term loans if state or federal revenues are delayed or fall short of projections. RABA access to reserves currently involves a cumbersome process of SRTA Board of Director's approval, with modified claim instructions to the county auditor. This requires excessive staff time and a two-to three month delay.

SRTA traditionally overfunds RABA, and RABA records this overfunding as deferred revenue. SRTA reconciles overpayments annually by adjusting future payments in a process called a "true-up". The board approves all true-ups. Up to 2007, SRTA recorded the overpayment in SRTA's financial statements. For unknown reasons, this practice of recording the true-ups in the financial statements was discontinued beginning in 2008. With the transition of SRTA to an independent agency, staff has instituted better financial systems and controls to track overpayments. This was a focus of this year's audit and will result in revised transit funding policies to be considered in April.

In review of RABA's June 30, 2012, financial statements, staff noted that RABA was holding approximately $1.1 million in SRTA overpayments accumulated over three years. Staff recommends that RABA return $1 million of the over payment to SRTA for deposit in a new lending reserve fund. The $1 million reserve amount is recommended because it is based on the annual amount of either State Transit Assistance or Federal Transit Administration revenues. These sources have historically been delayed or eliminated due to state and federal budget shortfalls.

The new lending reserve account will streamline the lending process. A simple lending agreement will be developed and a funding request process established between SRTA and the borrower. All loans would be reported to the board of directors. SRTA will be more responsive to the cash needs of claimants such as RABA, and have greater oversight using the internal controls in the agency's new accounting system.

ALTERNATIVES:

The board of directors may continue under the present claim system and maintain the RABA reserve with the county auditor. This process delays authorized access to funds by two to three months which may force RABA to borrow cash through other means such as the city of Redding.

OTHER AGENCY INVOLVEMENT:

The city of Redding finance department and RABA staff are in agreement with this recommendation. The Technical Advisory Committee (TAC) concurs with the staff recommendation.

FINANCING:

The loan reserve would be reduced to $1.0 million and held directly by SRTA. The current RABA reserve of $1.2 million held by the county auditor, plus the $137,000 balance of the RABA repayment, would be made available for distribution to claimants as part of next year's budget, consistent with state law and agency policies.

Daniel S. Little, AICP, Executive Director

Attachments: Draft Financial and Accounting Policies & Procedures Section 428

428 Loans to Local Agencies

428.01 The agency is permitted to loan funds to local agencies for operating and capital from a one-million dollar ($1,000,000) established designation of funds.

428.02 The designated funds are to be held as local transportation funds in SRTA's name.

428.02 Loans shall require a formal agreement between SRTA and the local agency.

428.03 Lending activity shall be reported to the board of directors on a periodic basis.

428.04 The maximum loan balance to any claimant shall not exceed one million dollars ($1,000,000).

428.05 Loans will only be authorized for transit purposes that have been approved by the board of directors.

428.06 Loans shall generally not exceed one year in length, with specific terms outlined in the formal agreement.

428.07 SRTA may deduct future revenues distributed by the agency to ensure loans are repaid in a timely manner.