

# **Review the Measure A and Measure AA Reserve Policy Options**

**TAM Board of Commissioners  
June 27, 2019 Meeting**



# Background Information

## Measure A Expenditure Plan

Page 26: “... *The Authority will also have the ability to set aside a reserve fund of up to 10% of the annual receipts from the tax for contingencies, to ensure that the projects included in this plan are implemented on schedule.*”

## Measure AA Expenditure Plan

Page 34: “... *TAM will have the ability to set aside a reserve fund up to 10% of the annual transportation sales tax receipt for contingencies, to ensure a cushion if economic decline occurs that adversely affects the collection of the sales tax...*”

# Background Information

## Standard Fiscal Practice

The Government Finance Officers Association (GFOA) recommends that *governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund. It is essential that governments maintain adequate level of general fund balance to mitigate current and future risks and sufficient liquidity in all funds. Another objective in establishing a general fund balance reserve policy is to maintain credit worthiness. Rating agencies monitor levels of fund balance and an unrestricted fund balance in governmental general funds to evaluate creditworthiness*

## Other CMA Practice:

Based on a recent survey conducted, 6 out of the 8 other CMA/Sales Tax Authorities has one or more reserve funds

# Primary Purposes of the Measure A/AA Reserve Fund



Ensure that the projects and programs included in this plan are implemented on schedule



Ensure a cushion if economic decline occurs that adversely affects the collection of the sales tax

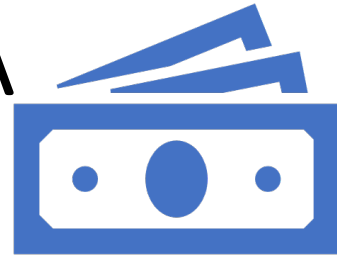


Use as collateral and help with cash flow if necessary when paying back loan



Help maintain credit worthiness when debt financing is needed

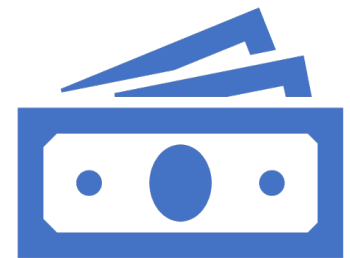
# Use of Reserve Fund Under Measure A



- ❖ The collection of the reserve fund was used as collateral and provided extra assurance that TAM could pay back the loan per payment schedule when TAM had to borrow \$12.5 million from MTC to meet the cash flow needs of the Highway 101 Gap Closure Project
- ❖ Cash in the reserve fund helped TAM meet the annual loan payment cash needs
- ❖ \$1.12 million of the reserve fund was released to Marin Transit on December 1, 2016 to close the funding gap for its Redwood and Grant Transit Improvement Project.

# Transition from Measure A to Measure AA

- ❖ Approximately \$5.38 million is available in Measure A Reserve Funds
- ❖ Measure A Reserve Funds cannot be used as Measure AA Reserve Funds – different eligibilities and different percentages
- ❖ Staff is proposing to program and allocate existing Measure A Reserve Funds in the percentages and amounts as shown in attachment/staff report at the 1:1 ratio recommended by the COC



# Measure AA Reserve Funds Proposals

- ❖ Staff is proposing to start a new collection of reserve funds with Measure AA funds starting in FY 2019-20
- ❖ Staff is proposing a targeted amount no less than \$7 million, 5% for the first five years of the Measure AA revenue collection
- ❖ Staff is proposing a policy whereby a category or subcategory that, in an emergency, uses Measure AA reserve funds will be responsible for replenishing the used reserve funds under a negotiated timeframe.



# Measure AA Reserve Fund Options Considered

- ❖ Various scenarios on Reserve Fund Set-Aside

Option 1: 5.0% over 5 years = \$7.2 million

Option 2: 2.5% over 7 years = \$5.2 million

Option 3: 2.5% over 10 years = \$7.7 million

- ❖ Detailed Distribution Table shows the amounts collected from categories and subcategories over the collection periods



# Marin Transit's Comments on the Reserve

## Marin Transit's June 21, 2019 Comment Letter Regarding the Reserve Policy

Comment 1: Release of all Measure A Reserve Funds

Comment 2: Establish a 0% Reserve Fund For Measure AA Transit Category

*Marin Transit's June 21, 2019 Comment Letter is in addition to its May 23, 2019 Comment Letter. TAM's responses to all comments in both letters are provided in the TAM Letter to Marin Transit under Item 9, Measure AA Strategic Plan*

# County Counsel's Legal Review

## *Legal Opinion*

- ❖ The 2018 Final Expenditure Plan suggests that the reserve fund should be allocated from the gross revenue generated by the transportation sales tax and, therefore, would be set aside from each fund category.
- ❖ If the Board decides to set aside the reserve funds for only certain categories, those categories would be the only ones that could access the reserve funds.

# County Counsel's Legal Review

## *Legal Analysis*

- ❖ The Expenditure Plan's statement that the reserve fund will be set aside from the annual transportation sales tax receipts suggests that the percentage would be set aside from total receipts, not just certain fund categories, and county counsel's understanding is that this is the general practice.
- ❖ The Expenditure Plan doesn't mandate the reserve, therefore TAM Board has the discretion to not have a reserve, or only have a reserve for certain categories.
- ❖ By allowing a category to receive its full distribution, and not allocate a percentage to the reserve fund and still receive reserve funds, would in essence change the distribution of that category. Accordingly, only the categories have contributed to the reserve would be able to access those funds.

# COC's Responses and Actions

## *Marin Transit Comment 1: Release of Measure A Reserve Funds*

### ***COC's Responses:***

1. A healthy reserve is a critical asset for future potential borrowing and could be required as collateral for improved loan terms and favorable credit ratings.
2. The existing reserve should not be distributed before the new reserve begins to build up. The existing reserve should be released at a ratio of 1:1 as the new reserve is accumulated.

### ***COC's Actions:***

The COC voted unanimously to recommend that the TAM Board does not release the Measure A reserve all at once, but rather release it at the same rate that the Measure AA reserve is accumulated in order to maintain the current \$5.38 million reserve level as the minimum level at all times.

# COC's Responses and Actions

## ***Marin Transit Comment 2: Establish a 0% Reserve Fund For Measure AA Transit Category***

### ***COC's Responses:***

1. TAM's reserve is not based on categories of the Expenditure Plan but is an independent finance reserve of the entire revenue stream to support TAM's responsibility to deliver all projects and programs under Measure AA cost-effectively and in a timely manner.
2. The reserve should be taken off-the-top of the entire revenue stream for fairness to all funding recipients.
3. The TAM reserve can be applied to any category that is in need of the reserve for the purposes declared, including project funding contingencies and to ensure a cushion if an economic decline occurs.
4. 5% of total receipts for a term of 5 years is the quickest way to build up the reserve, release the Measure A reserve, and follow precedent from the original Measure A reserve policy.

# COC's Responses and Actions

## ***Marin Transit Comment 2: Establish a 0% Reserve Fund For Measure AA Transit Category***

### ***COC's Actions:***

The COC Voted unanimously to make the following two recommendations to the TAM Board:

1. Start to build the Measure AA reserve with 5% set aside during each of the first 5 years off-the-top of the total revenue collection, estimated to accumulate a reserve of \$7.2 million.
2. Adopt a policy that a category or subcategory that accesses the Measure AA reserve fund will be responsible for replenishing the used funds over an established period of time.

# TAM Staff's Recommendation:

1. Release Measure A reserve funds at a rate that does not exceed the amount collected for Measure AA reserve funds
2. Establish a Measure AA reserve fund policy to collect 5% of the revenue for reserve from all categories for five years starting in FY 2019-20
3. Adopt a policy whereby a category or subcategory that uses Measure AA reserve funds will be responsible for replenishing the used reserve funds over a reasonable period.



