



Budget Committee

Fiscal 2008 Budget Review Item V - A2

January 11, 2007

**Requested Budget Analysis: Operating
Contingency Reserve**

**Washington Metropolitan Area Transportation Authority
Board Action/Information Summary**

Action
 Information

MEAD Number:

Resolution:
 Yes No

SUBJECT

WMATA's current policy on the Operating Contingency Reserve

DESCRIPTION

Board resolution #97-35 established a contingency reserve for the loss of federal operating assistance. The reserve is included in each operating fund's adopted budget to provide for unanticipated expenditures or to meet unexpected increases in service delivery costs within the given fiscal year. This reserve is budgeted and maintained at a balance not to exceed 1% of the current year's operating budget.

Operating reserves have been used to offset eligible expenses associated with snowstorms, extra security costs, and the FY03 budget shortfall of approximately \$3.3 million.

SURVEY OF OPERATING RESERVE POLICIES

The Government Finance Officer's Association (GFOA) recommends operating budget reserve policies of 5%-15% for its members.

Recently, the Los Angeles County Metropolitan Transportation Authority conducted a survey of public transportation entities to compare different reserve policies. The survey reported that the following transit agencies have adopted a 5% contingency reserve:

- Chicago Transit Authority, (CTA)
- San Francisco County Transportation Authority (SFCTA)
- San Francisco Municipal Railway (MUNI)
- San Francisco Bay Area Rapid Transit District (BART), and
- Metropolitan Transit System Development (San Diego).

Furthermore, the report stated that other transit properties set aside one or two months of operating costs for their property's contingency reserve.

Pursuant to the D.C. Official Code §1-204.50(2001), the District of Columbia government was required to establish and maintain a cash Contingency Reserve Fund equaling at least 3% of the total local revenue appropriated for operating expenditures per fiscal year.

This requirement was satisfied when the DC Contingency Reserve was funded at 3% at the end of FY 02 (five years prior to the required time). The requirement has since been increased to 4%.

This fund established by the DC government may be used only for nonrecurring or unforeseen needs that arise during the fiscal year, including:

- expenses associated with unforeseen weather,
- natural disasters,
- unexpected liability created by Federal law,
- new public safety,
- health needs,
- requirements that have been identified after the budget process has occurred, and
- opportunities to achieve cost savings.

The fund may also be used, if needed, to cover revenue shortfalls experienced by the D.C. government for three consecutive months (based on a two-month rolling average) that are 5% or more below the budget forecast. The District's Contingency Reserve Fund may not be used to fund any shortfalls in any projected reductions that are included in the budget proposed by the D.C. government for the fiscal year. Funds may only be allocated after an analysis has been prepared by the CFO and all other surplus funds available to the District have been completely exhausted.

RECOMMENDATION

WMATA should continue to maintain a contingency reserve equal to 1% of the operating budget to ensure that the Authority can adjust to economic downturns, extraordinary cost increases, and other financial emergencies to preserve WMATA's ongoing ability to deliver safe and reliable service to its customers.



Operating Contingency Reserve

Presented to the Board of Directors:

Budget Committee

January 11, 2007





Overview

- Board resolution #97-35 established a contingency reserve for the loss of federal operating assistance
- This reserve is budgeted and maintained at a balance not to exceed 1% of the current year's operating budget
- Operating reserves have been used to offset eligible expenses associated with snowstorms, extra security costs, and the FY03 budget shortfall of approximately \$3.3 million.
- The Government Finance Officer's Association (GFOA) recommends operating budget reserve policies of 5%-15% for its members



D.C. Government and Transit Entities Operating Reserve Policies

- The following transit agencies have adopted a 5% contingency reserve:
 - Chicago Transit Authority, (CTA)
 - San Francisco County Transportation Authority (SFCTA)
 - San Francisco Municipal Railway (MUNI)
 - San Francisco Bay Area Rapid Transit District (BART) and
 - Metropolitan Transit System Development (San Diego)

- Pursuant to the D.C. Official Code §1-204.50(2001), the District of Columbia government was required to establish and maintain a cash Contingency Reserve Fund equaling at least 3% of the total local revenue appropriated for operating expenditures per fiscal year. The requirement has since been increased to 4%

- The District's Contingency Reserve Fund may not be used to fund any shortfalls in any projected reductions that are included in the budget proposed by the D.C. government for the fiscal year



Recommendation

- WMATA should continue to maintain a contingency reserve equal to 1% of the operating budget to ensure that the Authority can adjust to economic downturns, extraordinary cost increases, and other financial emergencies to preserve its ongoing ability to deliver safe and reliable service to its customers.