

CONTINGENCY RESERVE POLICY

1. Purpose

SANDAG has historically relied upon budget savings to provide adequate fiscal flexibility to accommodate unavoidable and unanticipated costs. As SANDAG has taken on more responsibilities and funding sources have become more constrained, additional tools for managing financial fluctuations and risks are warranted. Establishing contingency reserves provides a means for dealing with emergency or high priority situations that may arise during the course of delivering projects or programs that could not otherwise be funded in the near-term.

The purpose of this policy is to provide guidelines for a contingency reserve, such as the required balance, allowable uses, required approvals, and method of replenishment. The nature of SANDAG's work includes regional planning, capital project development, and regional operations. The guidelines established below coincide with the agency's project and program needs as identified in the corresponding section of the annual Program Budget.

2. Scope

A. Regional Planning (Overall Work Program)

Contingency Reserve Fund Required Balance – The targeted minimum amount to be maintained in the Overall Work Program (OWP) reserve account shall be equal to 10 percent of total budgeted annual expenditures of the OWP excluding funds passed-through to other entities. Total annual expenditures are defined as the amount of the OWP Expense Budget contained in the Revenue and Expense Summary chapter of the annual OWP. The year-end revenue and expense reconciliation process will include the amount necessary to replenish or increase the contingency reserve to achieve this minimum balance, unless explicitly approved otherwise by the Executive Committee.

Applicable Fund Sources – Local matching funds such as Transportation Development Act and *TransNet*, which are more discretionary in nature, will be used as the source to build and replenish this fund.

Qualifying Uses of the Reserve Fund – The Reserve Fund shall be used for one-time non-recurring purposes, unless otherwise approved by the Executive Committee. The following occurrences shall qualify as potential eligible uses, subject to individual approval by the Executive Committee:

- a. opportunities to advance urgent, high-priority needs;
- b. unanticipated needs relating to a crucial existing commitment; and
- c. unforeseen withdrawal or cutback of a revenue source.

Approval for the Use of Reserve Funds – Each proposed use of the contingency reserve fund will be subject to approval by the SANDAG Executive Committee. Each request for approval will include the specific amount needed, a justification of the need, how the need fits the funding criteria, and a discussion of any other alternatives that were examined.

Replenishment of the Reserve Fund – Replenishment up to the minimum target of 10 percent will be planned in the budget process as needed and directed by the Board of Directors. Budgetary savings of discretionary funding will be transferred into the reserve fund to maintain the minimum target.

B. Capital Program

Project Level Contingency

Contingency Reserve Fund Required Balances – Capital projects vary in nature and shall have individual contingency reserve targets to address project risks. The annual SANDAG Program Budget shall identify contingency reserve funds for each SANDAG lead capital project.

Applicable Fund Sources – Each SANDAG lead capital project shall include a line item for contingency reserves as part of its approved budget using the fund sources associated with the project.

Qualifying Uses of the Reserve Funds – The contingency reserve funds shall be used in a manner appropriate to the project's specified purposes including unanticipated costs in delivering the project or unforeseen withdrawal or cutback of a revenue source.

Approval for the Use of Reserve Funds – The proposed use of contingency reserve funds for capital projects will be authorized through the inclusion of the line item in the budget.

Replenishment of the Reserve Fund – Replenishment of capital project contingency reserves will correspond to the risks associated with the work. Should a project's funds be exhausted and if opportunities to down scope the work are not available, the project will rely on new monies/revenue or the deferral of a future capital project.

TransNet Major Corridors Program Contingency Reserve

Contingency Reserve Fund Required Balances – In conjunction with the annual Program Budget update, program level contingency will be calculated based on risk level and the size of the *TransNet* construction program.

Applicable Fund Sources – *TransNet* Major Corridor revenues will be used to fund the program contingency reserve.

Qualifying Uses of the Reserve Funds – The program contingency reserve funds shall be used in a manner appropriate to the project's specified purposes which have not been included in the project budget.

Approval for the Use of Reserve Funds – The transfer of program contingency reserve funds into project budgets will be consistent with the current delegation of authority policies.

Replenishment of the Reserve Fund – Replenishment of program contingency reserves will correspond to the risks associated with the current and upcoming work. The annual Plan of Finance will confirm capacity to fund the program contingency reserve account at the level required by the risk assessment.

C. Regional Operations

Contingency Reserve Fund Required Balances – Operational programs vary in nature and shall have individual contingency reserve targets to address project risks. The annual SANDAG Program Budget shall identify contingency reserve funds for each Operations Program.

Applicable Fund Sources – Each Operations program shall directly fund its reserves through service fees or program revenue as applicable.

Qualifying Uses of the Reserve Funds – The reserve funds shall be used in a manner appropriate to the program’s specified purposes, including unanticipated costs in delivering or operating the project; or unforeseen withdrawal or cutback of a revenue source.

Approval for the Use of Reserve Funds – The proposed use of contingency reserve funds for each Operations program will be authorized through inclusion in the budget.

Replenishment of the Reserve Fund – Replenishment of operational program shall be provided through annual budgetary savings, service/member fees, or program revenue as applicable.

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