

FINANCE COMMITTEE MEETING

January 27, 2022

9:00 a.m.

VIRTUAL MEETING INSTRUCTIONS

Held via Webex Video Conference:

<https://lextran.my.webex.com/lextran.my/j.php?MTID=m616b78fc688f1a6b2f9534e79fd3167e>

Audience or Lextran staff can join by phone for listen only:

312-535-8110 OR 408-418-9388

Enter meeting number when prompted:

2633 655 4418

Broadcast on YouTube at:

bit.ly/lextranmeeting

Contact Alan Jones at ajones@lextran.com for assistance or for access from outside the US.

AGENDA

I.	Call to order	9:00		
II.	Approval of Minutes – September 23, 2021 (p. 2)	9:00	–	9:05
III.	Cash Reserve Policy (p. 5)	9:05	–	9:30
IV.	Investment Policy (p. 6)	9:30	–	9:50
V.	Proposed Agenda Items			
	a. Report/Presentation from PVA	9:50	–	9:55
	b. FY2023 Operating Budget			
VI.	Adjournment	9:55		

LEXTRAN BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

MINUTES SEPTEMBER 23, 2021

MEMBERS PRESENT

George Ward, Finance Committee Chair
Jamie Rodgers, Board Member
Rick Christman, Board Member
Jill Barnett, General Manager
Byron Robinson, Assistant General Manager
Nikki Falconbury, Director of Finance & HR

OTHERS PRESENT

Stephanie Hoke, Finance Manager
Noena Zerna, Marketing & Communications Coordinator
Alan Jones, Systems Administrator
Anne-Tyler Morgan, McBrayer Law Firm, Board Attorney
Scott Nickerson, Crowe LLP
Shelby Howell, Crowe LLP

I. CALL TO ORDER

Mr. Ward called the September 23, 2021, Lextran Board of Directors Finance Committee meeting to order at 9:00 a.m.

II. APPROVAL OF MINUTES

Mr. Ward called for a motion to approve the April 6, 2021, committee meeting minutes. Mr. Christman made a motion to approve the minutes, and it was seconded by Ms. Rodgers. The motion carried unanimously.

III. FY2021 AUDIT

Mr. Nickerson gave a review of the fiscal year 2021 audit. The audit issued a clean and unqualified opinion as related to the financial statements, the highest form of opinion. Mr. Nickerson stated the management discussion of analysis shows variance analysis between the years 2020 and 2021 as well as operating changes. There was one recommended adjustment, related to accrued wages. It was adjusted and reflected as corrected in the financial statement. There were no such matters to communicate in terms of any issues with completing the audit, and there were no disagreements. The audit offers a clean opinion on the government auditing standards and the uniform guidance. There are no material weaknesses or deficiencies for the financial statement.

Mr. Nickerson gave a review of the balance sheet as of June 30, 2021. The current assets consist of cash and receivables. The capital assets reflect a significant portion of the total assets. The net pension asset displays a positive funding pension. The only significant liability relates to the note payable associated to the new markets tax credit.

Mr. Nickerson reviewed the income statement. He stated that there are impacts in fare revenue due to COVID-19. A significant part of the operating budget is depreciation which is included as a noncash expense. Overall, the non-operating revenue is up due to capital assistance. He stated many transit agencies are using the capital assistance funds to support operating expenses and strategic capital projects.

Mr. Ward asked a question about the summary of the assets for proprietary funds and what the restricted cash entails. Ms. Howell replied that the only restricted cash was related to the New Markets Tax Credits. Mr. Ward asked if the net pension asset increase from the prior year was related to the market. Mr. Nickerson indicated the increase was due to a better market return. Mr. Ward asked about the notation that the cash and cash equivalent are collateralized. Mr. Nickerson replied that it states that it is either insured or collateralized which is required by the Commonwealth of Kentucky.

Mr. Ward requested clarification on the defined pension contribution plan and the difference for the employee and the employer contribution amounts. Ms. Falconbury replied that pension contributions are \$1.22 an hour for the employee contribution and \$1.05 an hour for the employer contribution.

Mr. Ward asked Ms. Falconbury about the fees required to dissolve the New Markets Tax Credits. Ms. Falconbury replied that there will be legal fees due to the requirement of assistance from attorneys to dissolve the transaction. Mr. Nickerson stated that \$12.7 million dollars as well as interest will be considered a gain on extinguishment of debt and will be considered non-operating revenue. Ms. Falconbury stated that this transaction should take place in March 2022.

Ms. Rodgers asked Mr. Nickerson to explain the increase in expenses among other transit agencies. Mr. Nickerson stated that most of the increased expenses are related to the purchase of personal protection equipment and additional cleaning equipment as well as more sick time required for payroll. Ms. Barnett added that when Lextran reduced service during the pandemic, Lextran was able to maintain stability by having employees work in other areas such as cleaning and sanitizing buses.

IV. CASH RESERVE POLICY

Mr. Ward requested that Lextran develop an operating reserve and a capital reserve policy. Ms. Falconbury stated that several samples from other agencies were received at the request of the Crowe LLP public transit roundtable session. She continued that it appeared most of the smaller agencies utilized an operating reserve policy similar to the sample and the larger agencies had a separate capital reserve policy.

Mr. Christman asked Ms. Falconbury the total federal assistance funds for COVID Lextran has received. Ms. Falconbury indicated there is a total of \$33 million dollars for Lextran, which is drawn down on a reimbursement basis. Of that total, \$3.5 million dollars was set aside for a capital project.

Ms. Rodgers asked Ms. Barnett if Lextran plans to add funds to the reserve over time or if there is a plan for a lump sum. Ms. Barnett suggested a plan to start the reserve with a lump sum of

funds and make plans to add to the fund in future years. Mr. Ward stated that fleet replacement and building repairs will be future capital needs.

Ms. Falconbury provided a draft reserve policy. Ms. Rodgers mentioned the language in the cash reserve policy that states “declaration for fiscal emergency” and asked if it is too restrictive for capital needs. Ms. Falconbury replied that the language could be updated to include “resolution approved by the Board of Directors.” Mr. Ward requested the first bullet be updated to include the language “Vehicle replacement and capital facility maintenance”.

V. PROPOSED AGENDA ITEMS

- a. Investment policy
- b. PVA property trends

VI. ADJOURNMENT

Mr. Ward called for a motion to adjourn the September 23, 2021, meeting of the Lextran Board of Directors Finance Committee. Ms. Rogers made a motion that was seconded by Mr. Christman. The meeting adjourned by consensus at 10:40 a.m.

CASH RESERVE POLICY

OBJECTIVE

To establish a cash reserve policy, where the Transit Authority of Lexington-Fayette Urban County Government (Lextran) would maintain a cash on-hand minimum balance in the amount of 15% of annual operating expenses to facilitate cash flow in the event of delayed grant reimbursements or unforeseen economic conditions that would result in lower property tax revenues. Agency funds in excess of the 15% cash reserve would be allocated to other priority projects and programs as indicated in this policy.

MINIMUM PERCENTAGE FUNDING REQUIREMENTS

A minimum percentage of 15% of the total operating budgeted expenses should be maintained in a contingency reserve. These funds may be used with a resolution approved by the Lextran Board of Directors. In addition, staff may utilize these funds on a temporary basis to maintain cash flow for no more than 90 days in the event grant reimbursements are delayed. In this situation, if the funds are not replenished within 90 days, staff must report this matter to the Board of Directors at the next scheduled meeting. The reserve account will be evaluated each year during the annual budget process.

Revenues in excess of the 15% cash reserve may be used in the following order of priority:

1. Vehicle replacement and capital facility maintenance to maintain a state of good repair, as required by the Federal Transit Administration and to ensure the provision of transit services.
2. Evaluate and adjust wages and benefits as needed, to ensure competitive pay within the industry and the region.
3. Improve and/or expand transit services deemed reasonable for the service area.
4. Review fare policies and transit pass prices to ensure customers are receiving value for their dollars.

**Investment Policy for the
Transit Authority of Lexington-Fayette
Urban County Government (LEXTRAN)
November 2007**

The objective of the Transit Authority of Lexington-Fayette Urban County Government ("LEXTRAN") is to invest funds in a manner that will provide the highest investment return with the maximum security, safety and liquidity to meet all necessary cash flows. The Director of Administration is the investment officer charged with the responsibility for the purchase and sale of investments and the execution of this Investment Policy.

I. Scope

This Investment Policy applies to all financial assets of LEXTRAN excluding retirement plan assets. The Director of Administration shall routinely monitor the contents of the investment portfolio, the available markets and the relative value of competing investments and will adjust the portfolio accordingly.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

1. Safety

Safety of principal is the foremost objective of the investment activity. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs or by investing in securities with active secondary or resale markets.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall be purchased with the expectation that they may be held until maturity. However, securities may be sold prior to maturity:

- To minimize loss of principal
- To improve the quality, yield, or target duration of the portfolio
- To meet liquidity needs

III. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of LEXTRAN.

3. Delegation of Authority

Authority to manage the investment program is granted to the Director of Administration, hereinafter referred to as investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer.

IV. Suitable and Authorized Investments

In accordance with Kentucky Revised Statute (KRS) 66.480, the following investments will be permitted by this policy:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:
 - a) United States Treasury;
 - b) Export-Import Bank of The United States;
 - c) Farmers Home Administration;
 - d) Government National Mortgage Corporation; and
 - e) Merchant Marine bonds

3. Obligations of any corporation of the United States government, including but not limited to:
 - a) Federal Home Loan Mortgage Corporation;
 - b) Federal Farm Credit Banks;
 - c) Bank for Cooperatives;
 - d) Federal Intermediate Credit Banks;
 - e) Federal Land Banks;
 - f) Federal Home Loan Banks;
 - g) Federal National Mortgage Association; and
 - h) Tennessee Valley Authority;
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Cooperation;
5. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
6. Commercial Paper rated in the highest category by a nationally recognized rating agency;
7. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
8. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.

V. Diversification

The investment authority shall be subject to the following limitations:

- a) The amount of money invested at any time in one (1) or more of the categories of investments authorized by sections 5, 6, and 8 of this section shall not exceed twenty percent (20%) of the total amount of money invested by LEXTRAN; and
- b) LEXTRAN shall not purchase any investment authorized on a margin basis or through the use of any similar leveraging technique.

VI. Maximum Maturity

With the exception of securities held as collateral for a written repurchase agreement, any investment must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of LEXTRAN.

VII. Authorized Financial Institutions and Authorized Investment Advisors/Brokers

The investment officer and LEXTRAN may elect to use a broker and/or investment advisor to implement this investment policy. All brokers, advisors, and financial institutions initiating transactions with LEXTRAN must acknowledge their agreement to abide by the content of this investment policy.

VIII. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by LEXTRAN and evidenced by safekeeping receipts.

IX. Internal Controls

The Director of Administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of LEXTRAN are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgements by management. Accordingly, the Director of Administration shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

X. Reporting

The Director of Administrative shall prepare an investment report at least quarterly that provides an analysis of the current investment portfolio. This management summary will be prepared in a manner, which will allow LEXTRAN to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer and all other designated parties.

The market value of the portfolio shall be calculated regularly in compliance with all governing statutes and accounting procedures. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with current mark-to-market practices.

This policy was adopted by the Board of Directors of the Transit Authority of Lexington-Fayette Urban County Government on November 14, 2007

Adoption of this Investment Policy of the Transit Authority of Lexington-Fayette Urban County Government is acknowledged by:

By signing this agreement, the institution below submits that it has read this policy and agrees to abide by its content.

Chris M. DeBa 4/1/08 -
RBC Public Fund Services

Rocky A. Burke
Signature of Authorized Officer

Rocky A. Burke, General Manager Date 4/1/08
Printed Name and Title

Geraldine Davidson
Second Signature of Authorized Officer

Geraldine Davidson Date 4/1/08
Second Printed Name and Title