CVTA TAC AGENDA 3/10/25; ITEM 7.

Working Capital Reserve Access

Central Virginia Transportation Authority

BACKGROUND:

The CVTA has adopted a financial policy that establishes a working capital reserve (WCR). This reserve was established following action by the CVTA at its September 2024 meeting.

In addition to formulating a process to fill that reserve to its required level, the CVTA Finance Committee has discussed potential reasons for utilizing the WCR funding and mechanisms for initializing those potential draws.

Following fruitful conversation at its February 12, 2025, meeting, the Finance Committee voted to refer the matter to the Technical Advisory Committee for review and development of recommendations to be brought back to the Finance Committee.

In addition to this staff report, the Executive Director has included a set of discussion points for consideration regarding the intent of the WCR. These discussion points have been reviewed by the Finance Committee.

Action requested:

Motion to recommend guidelines for utilizing the Working Capital Reserve.

Finance Committee – Working Capital Reserve Intent

<u>Excerpt from the adopted CVTA Financial Policies and Procedures</u>: *Fund and maintain a Working Capital Reserve equal to at least 3 months of the budgeted, annual Regional CVTA Funds. If drawn upon, the Chief Financial Staff of the CVTA will develop a plan to restore the Working Capital Reserve to its minimum level over a period not to exceed 18 months. The Authority will revisit the level of this reserve no later than June 30, 2025, to reflect its actual cash flow patterns and expenditure reimbursements.*

Discussion points

1. A working capital reserve is funding set aside to help achieve financial stability and flexibility, and provide a cushion against unexpected events that could impact cash flow
2. Since CVTA is a regional authority that provides funding opportunities, and the Authority does not implement or construct projects, the primary purpose of the working capital reserve would be help CVTA manage its cash flow based on timing mismatches between revenue receipt and the disbursement of funds
    a. Examples include:
        i. Actual Regional Revenues are less than projected
        ii. Requests for disbursement of funds occur sooner than expected
3. The WCR can be drawn if there is a cashflow issue driven by project expenditure timing and/or revenue shortfall. *An extreme example may be – if the General Assembly decided to take away or reduce a portion of our revenue stream and we needed to pay for already approved projects & its expenditures, we could draw on the WCR. Or, we are in an economic recession and the sales tax revenues significantly dip below the budgeted amount.* The WCR is more or less a rainy day fund (the localities all have it too – within the general fund balance, usually an unassigned General Fund policy) that CVTA will hopefully not have to access.
4. The WCR will not be available to absorb project overruns. CVTA already has under its project selection framework policies regarding reserving funds to cover issues like cost increases. That balance entry policy is excerpted from the framework below:

Table 7: Balance Entry & Project Allocation Percentages

	Previous	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Projects	100%	90%	85%	80%	75%	70%	65%
Balance	0%	10%	15%	20%	25%	30%	35%

5. The WCR will not be used to pay for debt service. CVTA will have a separate reserve (a debt service reserve fund) established for the debt issuance that is available to pay for debt service as part of the bond issuance.