

CVTA AGENDA 1/31/25; ITEM B.-5.

Working Capital Reserve Strategy

Central Virginia Transportation Authority

BACKGROUND: The CVTA has committed to establishing a Working Capital Reserve to provide a safeguard for regional project allocations as the development atmosphere evolves over time. The strategy below outlines the process for establishing and maintaining that reserve.

Working Capital Reserve Strategy

CVTA's financial policies provide for a Working Capital Reserve ("WCR") equal to at least 3 months of the budgeted, annual Regional CVTA Funds. Based upon the FY 2024 preliminary Regional CVTA Funds, the WCR requirement is equal to approximately \$18 million, which for the purposes of establishing the WCR, is the baseline. This amount will fluctuate slightly each year, corresponding to the latest round of revenue estimates received by CVTA each December.

At the close of fiscal year 2024, CVTA had approximately \$11.6 million in investment interest earnings from the Regional CVTA Funds. At its September 27, 2024, meeting, the Authority directed the allocation of \$11.6 million in investment earnings, as follows:

1. Allocate \$1.5 million to fund wayfinding implementation for the Fall Line Trail
- 2. Allocate \$5.05 million to initially fund the WCR**
3. Allocate \$5.05 million to fund regional projects, to be determined

With \$5.05 million of initial funding, the Authority will need to allocate an additional \$12.95 million to fully fund the WCR to its current requirement. In order to achieve this, staff and PFM recommended that the Authority direct 100% of its monthly investment earnings from Regional Funds to the WCR until it is fully funded. Although investment earnings will fluctuate, it is estimated that, at the expected rate of return, it will take roughly 15 months (to January 2026) to fully fund the WCR. The WCR requirement will be reevaluated by June 30, 2025 (set forth in the Financial Policies), and at that time, staff and PFM will also reevaluate the funding status of the WCR.

PBMares, CVTA's auditor, has reviewed the recommended approach to fund the WCR to ensure it is compliant from the auditor's perspective. Following its review, PBMares indicated that there are no issues with this approach and it does not foresee future audit concerns.

This staff report discusses the following framework for completing the development of the WCR and maintaining its balance over time. The Authority delegates to the Finance Committee the ability to provide direction to the Executive Director on the

oversight of the WCR and may modify or adjust the WCR funding strategy as needed, with regular reports to the FC and full board included in the monthly financial reports and as part of the annual budget process.

Monthly:

The Executive Director shall work with the CVTA Fiscal Agent to include additional data points in the financial report and investment report outlining the current status of a) the monthly regional investment earnings contribution to the WCR, b) a new line item in the financial report showing the WCR as a unique funding recipient, and c) the overall impact of the monthly investment to the bottom line of the WCR

Annually:

By June 30 of each year, staff will provide an update on the success of the WCR funding strategy and any recommendations necessary to ensure its long term impact.

Finance Committee Recommendation:

Committee members discussed the strategy and the importance of monthly reporting for tracking purposes. It was noted that because the money is left in the investment pool, it could increase or decrease. The purpose of the monthly reporting is so that changes in the strategy can be made when necessary to minimize loss.

On motion by Kevin Carroll, seconded by John Moyer, the members of the CVTA Finance Committee voted to recommend approval of the Working Capital Reserve Strategy as presented

REQUESTED ACTION:

Motion to recommend approval of the Working Capital Reserve Strategy as presented (Roll Call vote)

CVTA RESOLUTION: The following resolution is presented for Central Virginia Transportation Authority approval:

Resolved, that the Central Virginia Transportation Authority (CVTA) approves the Working Capital Reserve Strategy.