

San Mateo County Harbor District

<b>Policy Title:</b> Reserve Policy	<b>Number:</b> 4.4.3	<b>Approval Date:</b> 4/15/2020
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## STATEMENT OF POLICY

The San Mateo County Harbor District must maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of temporary unexpected revenue shortfalls or unpredicted one-time expenses. To meet this requirement, the District's Enterprise Fund Reserves (Reserves) has been created and maintained to respond to unexpected adversity and/or opportunities. This policy has been established to provide the rules and procedures on how the District will manage Reserves. In addition, this policy is intended to document the appropriate Reserve levels to protect the District's credit worthiness. Specifically, this policy establishes the amounts that the District will strive to maintain in its Reserves, how the Reserves will be funded, and the conditions under which the Reserves may be used

### Definitions and Acronyms:

- 1) Capital Improvement Program (CIP)- A plan that describes the capital projects and associated funding sources the District intends to undertake in the current year plus five additional future years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.
- 2) Cash Balance- The sum of cash and Cash Equivalents of the District.
- 3) Cash Equivalents- In the context of cash flow reporting, short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date the investment is acquired.
- 4) Enterprise Fund- Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.
- 5) Non-Recurring Item- An expense that has not occurred in the previous two years and is not expected to occur in the following year.
- 6) Enterprise Fund Reserves (Reserves)- Reserves refer only to the portion of Working Capital that is intended to provide stability and respond to unplanned events or opportunities.
- 7) Working Capital- An accounting term defined as current assets less current liabilities in a proprietary fund. Working Capital is used to express the Reserves available in a proprietary fund for use.

**Policy:**

- 1) Reserve Levels- The District will maintain a minimum level of Working Capital equivalent to 25% of the Operating Budget Appropriation adjusted to include 50% of biennial appropriations (e.g. election costs) and not include non-recurring appropriations. For purposes of this calculation Working Capital will include long-term investments that can be liquidated within five business days. The District will measure its compliance with this policy as of June 30<sup>th</sup> each year, or as soon as practical after final year-end account information becomes available.

If based on staff's analysis and forecasting, the target level of the Reserves is not being met or is likely to not be met at some point within a five-year time horizon, then during the annual budget process Working Capital levels will be provided to the Board of Commissioners. Should the projected year-end Working Capital position be below the minimum Reserve levels established based on the requirements outlined in this policy, a plan to replenish Reserves would be established based on the requirements outlined in this policy.

- 2) Cash Balance- In order to provide liquidity adequate to meet the needs and demands of providing government services including unanticipated reductions in revenues or unplanned increases in expenses, Reserve levels will be maintained and managed within the District's Cash Balance accounts. Reserves are intended to support this effort and provide cash during different annual cycles of payments due and revenues collected.
- 3) Funding Reserves- Funding will generally come from excess revenues over expenses or one-time revenues.
- 4) Conditions for Use of Reserves- It is the intent of the District to limit use of the Reserves to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenses. Reserves may however be used to allow time for the District to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of an adopted long-term plan.
- 5) Authority Over Reserves- Approval from the Board of Harbor Commissioners is required to expend Reserves. Staff will regularly report both current and projected Reserve levels to the Board on a quarterly or semi-annual basis.
- 6) Replenishment of Reserves- In the event that Reserves are used resulting in a balance below the 25% minimum, a plan will be developed and included in the formulation of the five-year forecast presented during the annual budget process.

- 7) Excess of Reserves- In the event that the Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:
  - a. Fund accrued liabilities including but not limited to debt service, pension, and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget resolution. Priority will be given to those items that relieve budget or financial operating pressure in future periods.
  - b. Appropriated to lower the amount of bonds needed to fund capital projects in the District's CIP.
  - c. One-time expenses that do not increase reoccurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs.
- 8) Periodic Review of the Targets- At a minimum, during the budget process staff shall review the current and five-year projected Reserves to ensure they are appropriate given the economic and financial risk factors the District is subject to.