



(3)

San Diego Unified Port District
Document No. 55299
Filed AUG 07 2009
Office of the District Clerk

BPC Policy No. 117

SUBJECT: OPERATING RESERVE POLICY

PURPOSE: The purpose of this policy is to establish general guidelines for the establishment, maintenance, and use of an operating reserve.

POLICY STATEMENT:

Operating reserves (i.e., cash reserves) are a measurement of sound fiscal management. Operating reserves generate investment income, provide a margin of safety and stability to protect the Port from exposure to catastrophic events and economic impacts, and provide flexibility to pursue emergent opportunities. To ensure long-term financial sustainability, the San Diego Unified Port District shall establish and endeavor to maintain an operating reserve balance that is available at the end of each fiscal year in an amount equal to six months of budgeted operating and maintenance expenditures.

PROCEDURE:

1. Establishing the operating reserve balance
 - a. The operating reserve balance shall be established annually upon the adoption of the fiscal year budget.
 - b. The dollar amount of the operating reserve balance shall be one-half the sum of budgeted operating and maintenance expenses minus budgeted expenses for the SDCRAA Harbor Police Service Level Agreement and any other operating expense for which a separate reserve exists.
 - c. The operating reserve balance includes a \$20 million minimum required operating reserve balance, which is established for the purpose of self-insurance against possible losses that could occur as the result of a catastrophic event (i.e., a natural or man-made disaster).
2. Maintaining the operating reserve balance
 - a. At least annually, Financial Services staff will forecast cash inflows and outflows over a five-year period to evaluate the sufficiency of the target operating reserve balance over the forecast horizon.

- b. Financial Services staff will present the results of the cash flow forecast to the Senior Management Team and discuss the target operating reserve balance over the forecast horizon.
- c. In the event that forecast cash inflows are insufficient to maintain the target operating reserve balance, staff will propose strategies to replenish the operating reserve balance, which include using one-time revenues, reducing expenses, suspending programs not linked to strategic goals, increasing revenues, or any combination of those strategies.
- d. At no time, except due to the occurrence of a catastrophic event, shall the operating reserve balance be allowed to fall below the \$20 million minimum required operating reserve balance without approval by the Board of Port Commissioners.

3. Uses of the operating reserve balance

- a. Operating reserves above the \$20 million minimum required operating reserve balance are authorized for use for the following purposes and in accordance with the following criteria.
 - i. A project is needed to comply with a current regulatory requirement or legal mandate.
 - ii. Cash flow requirements
 - Temporarily needed as a result of unfavorable financial performance due to the impact of an unfavorable economic environment.
 - iii. Major maintenance
 - 1. Project is necessary for the preservation of prior capital investment or an existing revenue stream; or
 - 2. Project costs exceed initial estimates due to higher than expected construction or material costs or an unforeseen problem during construction; or
 - 3. Project is scheduled to commence in a future fiscal year but is critical to complete earlier than planned.

iv. Capital development

Project is directly linked to and strongly supports one of the Port's strategic goals and is needed to start, resume, accelerate, or augment a currently approved Capital Development Program project.

v. Emergent opportunities

1. Directly benefits the Port by:
 - a. Creating a new revenue stream; or
 - b. Significantly enhancing an existing revenue stream; or
 - c. Preserving an existing revenue stream; or
 - d. Strengthening the Port's financial performance; and
2. Project payback is five years or less.
- b. Except in the case of a catastrophic event and in accordance with the San Diego Unified Port District Act § 58 "Suspension of Rules and Regulations in Emergencies; Emergency Regulations," any use of the \$20 million minimum required operating reserve balance requires approval by the Board of Port Commissioners.
4. The balance in the operating reserve shall be reported quarterly as necessary. Use of the operating reserve balance in no way contradicts, nullifies or usurps any other Board Policy, including but not limited to, BPC 110, "Procedure for the Administration of Contracts, Agreements, and the Purchasing of Supplies, Materials, and Equipment."

RESOLUTION NUMBER AND DATE: 2009-128, dated July 7, 2009

(1)

Re Adoption of BPC Policy 117,]
]
Operating Reserve Policy]
_____]

REFERENCE
COPY
55299

RESOLUTION 2009-128

BE IT RESOLVED by the Board of Port Commissioners of the San Diego Unified Port District, as follows:

That Board of Port Commissioners Policy No. 117, Operating Reserve Policy, a copy of which shall be placed on file in the office of the District Clerk, is hereby adopted.

ADOPTED this 7th day of July, 2009.

sw
7/7/09