

San Francisco Estuary Institute

7770 Pardee Lane, 2nd Floor • Oakland, CA 94621-1424
Office (510) 746-SFEI (7334) • Fax (510) 746-7300



MEMORANDUM

To: RMP Steering Committee (SC)
From: Meg Sedlak and Jay Davis
Date: April 10th, 2006

Subject: RMP Operating Reserve

The purpose of this memorandum is to recommend that the RMP retain an operating reserve (or unrestricted fund). To be a successful program, the RMP must balance revenues with expenditures on annual basis. However, both the project revenues and expenditures can vary substantially with any given year for a multitude of reasons including: changing interest rates, shortfalls in projected participant fees¹, difficulties transferring state funds to the RMP, and changes in the program elements mid-year. The purpose of the operating reserve is to develop a fund for cushioning unexpected economic shortfalls that may occur.

The size of an operating reserve is a function of a variety of factors including the stability and timing of cash flow, stability of expenses, and nature of liabilities. Because these variables are relatively stable as compared to other non-profit organizations, it would be our recommendation that the operating reserve be small compared to the overall budget², approximately \$200,000, or 6 percent of the 2006 budget.

As shown on the Excel budget summary sheet that is presented to the SC each quarter, there are surpluses from 2003, 2004, and 2005. Table 1 shows the surpluses by year. There is a surplus of approximately \$250,000 for 2005 of which we are recommending that approximately \$200,000 be carried over into 2006 to complete unfinished tasks and to address previously unanticipated new tasks for 2006.

¹ Dredger fees have varied over the last several years (e.g., shortfall for FY2002 was approximately \$108,500, shortfall for FY2003 was approximately \$131,200, and shortfall for FY2004 was approximately \$22,700).

² Operating reserves can vary substantially. Based on a recent article titled Criteria for Nonprofits Operating Reserves by Thomas Raffa, in a survey of 25 national non-profit organizations, operating reserves ran from 1 percent to 49 percent of total expenditures.

Table 1 Surplus by Year

Year	Surplus
2003	\$55,650
2004	\$36,240
2005	\$54,750 (assuming \$200,000 carried over)
Total	\$146,600

We recommend that this \$146,600 be retained as an operating reserve and that the goal for the program be to maintain approximately \$200,000 in reserve.