

THE PRESIDIO TRUST
FINANCIAL RESERVES POLICY

1. Purpose. The Board of Directors has determined that it is necessary and in the best interest of the Presidio Trust to establish four types of financial reserves: an operating reserve, a renewal reserve, a capital improvement projects reserve, and a technology and operations improvement reserve. These reserves are critical to operating the Presidio as a financially self-sustaining agency. This policy shall be effective immediately upon approval by the Board.

2. Operating Reserve. The Trust shall have an operating reserve for use in emergencies. The purpose of the operating reserve is to sustain the Trust's financial operations in the event of significant unexpected increases in operating expenses or reductions in operating revenues.

2.1. The target for the operating reserve is three months of average monthly operating costs. Operating costs include all recurring, predictable expenses that are used to calculate net operating income. Depreciation, in-kind, non-cash expenses, capital projects and renewal expenses are not included in the calculation.

2.2. Operating reserves are intended only for unexpected or unusual circumstances and may be used only with the approval of the Board.

3. Renewal Reserve. The Trust shall have a reserve to fund the renewal of its physical assets. Renewal means the replacement of assets at or near the end of their expected useful life and the investment needed to maintain or improve the condition index required to generate market-rate revenue.

3.1. The amount of funds to be set aside in a renewal reserve shall be based upon the age and condition of the Trust's physical assets.

3.2. Funds in the renewal reserve may be used to replace assets after approval by the Board of the annual budget and rolling five-year capital plan.

3.3. The renewal reserve for revenue-generating buildings is determined by the amount of renewal investment required to achieve or preserve a stable condition index that also supports market rate revenue generation from the assets.

4. Capital Improvement Projects Reserve. The Trust shall have a reserve to fund the capital improvement projects in the rolling five-year capital plan. Funds in the capital improvements project reserve may be used after Board approval of the five-year capital plan.

5. Technology and Operational Improvements Reserve. The Trust shall have a reserve to replace outdated or end-of-life hardware or software and to fund projects that will improve the operations of the Trust.

5.1. The amount of funds to be set aside in the Technology and Operational Improvements reserve will be 2% of annual operating revenue. However, this reserve shall be last in priority, meaning that it is funded only after the Operating, Renewal and Capital Improvement reserves are funded.

5.2 Funds in the Technology & Operational Improvements reserve may be used after approval by the Board of the annual budget and a rolling three-year operational improvement plan.

6. Implementation. Management shall develop procedures to implement this policy.

FINAL DOCUMENT

05-11-2023