

# University Operating Fund Reserve Policy P17-10

University Budget Office

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Applies to: Faculty, staff

## Purpose of the Policy

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Effective October 1, 2015, the Integrated CSU Administrative Manual (ICSUAM Section 2001.00) formalized and established a systemwide policy on the creation and use of reserve balances. To further define and operationalize the CSU Reserve Policy in relation to the specificities of our campus, Humboldt State has established the University Operating Fund Reserve Policy to guide University Operating Fund reserve planning efforts. Reserves are funded by one time dollars at the end of the academic year. They are not funded through base reduction or the eliminations positions, though they are dependent on coming in under budget each year. Reserves help us to preserve current operations and navigate difficult financial times.

## Definitions

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**Contingency:** An ongoing, base budgeted source of funding that is set aside annually, yet is not committed for a specific purpose. The contingency may be used on an exception basis, as approved by the president, to cover unexpected costs or revenue decreases within a given year. Unspent contingency at year-end will be allocated to reserves. (Note: The Contingency is part of the annual operating budget and is not covered within the Reserve Policy.)

**Reserve:** An accumulation of unrestricted funds set aside for economic uncertainties, unexpected expenses, losses, cash flow shortages, large repair or renovation projects, the acquisition and development of new facilities, and/or for future planning purposes. Reserves are a one-time source of funding. Once they are spent, they are gone, unless replenished from an alternate funding source. Reserves are the equivalent of future expenditures to ensure we have the resources for the activities we need to help students be successful. We cannot always fund critical resources during the year in progress and need to establish and build up reserve funding to reach long term expenditure goals. This involves multi-year planning, goal setting and projection of costs.

At a minimum, reserves in the following four areas need to be addressed:

- Operating Reserve
- Maintenance Reserve
- Capital Reserve (Capital Improvement Fund)
- Equipment Reserve

## Policy Details

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### Reserve Policy Principles

It is the policy of Humboldt State University to maintain financial reserves adequate to ensure responsible fiscal management, advance University priorities, and mitigate current and future risk.

- Building reserves is an important component of long-term, strategic planning to meet the University's objectives; failing to plan to adequately maintain our buildings and infrastructure is unsustainable and poses an unacceptable risk to the University and its community.
- Reserves used to make up for unexpected revenue shortfalls or unforeseen costs should be accompanied by a near-term plan to increase revenue or reduce expenditures to replenish the reserve.
- While it is appropriate to use reserves to resolve timing problems, reserves should be used only to provide a bridge to a solution rather than as a means to delay addressing a structural issue.

## Reserve Policy Guidelines

It is the goal of the University Resources and Planning Committee (URPC) to work toward establishing reserves at the following levels:

### Operating Reserve

The Operating Reserve provides flexibility to take mission-related risks and to absorb or respond to temporary changes in environment or circumstances. Without adequate reserves the University can suffer cash flow stress and become distracted from appropriate long-term decision making. Any spending out of the Operating Reserve must be accompanied by a plan to replenish the reserve fund.

- **CSU Campus Reserves Policy (Reserve for Economic Uncertainty):** a minimum of three months (25%) and a maximum of six months (50%) of budgeted operating costs
- **Operating Reserve Target\*:** a minimum of three months (25%) and a maximum of six months (50%) of Base Budget Expenditures
- **Target date to reach proposed reserve level:** Variable – growth in Operating Reserve should be evaluated in conjunction with other reserve investment needs

### Maintenance Reserve

The Maintenance Reserve is established to provide protection against unforeseen facilities and infrastructure issues and emergencies that may arise during the year, such as a roof leak or a boiler that stops operating effectively. The Maintenance Reserve is not intended to be a sustained resource for planned deferred maintenance projects. A separate, ongoing deferred maintenance budget shall be established to address ongoing deferred maintenance and capital renewal needs. While the primary purpose of the Maintenance Reserve is to mitigate extraordinary events that have their roots in deferred maintenance issues, under special circumstances it may also be leveraged to support capital projects as long as the documented use of reserves is accompanied by a reserve replenishment plan.

- **CSU Campus Reserves Policy:** No system imposed ceiling – Association of Physical Plant Administrators (APPA) recommends a reserve level for capital and maintenance between 1% and 3% of the Current Replacement Value (CRV) of University facilities. As of April 2017, the CRV of Humboldt State's facilities is \$880 million per recently completed facility condition audits. Prior to completing the recent facilities condition audits, the CRV of Humboldt State's facilities was estimated at \$674 million.
- **Maintenance Reserve Target\*:** .5% of CRV (~\$4.4 million as of April 2017), plus 10% of the cost of all maintenance projects included in the CSU Five-Year Capital Improvement Plan
- **Target date to reach proposed reserve level:** Almost half of the target exists – continue to build with available funding.

## Capital Reserve (Capital Improvement Fund)

Beginning in 2014-15, the CSU capital funding framework was changed to require the CSU to self-fund future capital projects, which dictates the need for Humboldt State to develop a Capital Reserve. The Capital Reserve is established to provide the funding necessary for the University to acquire, develop, and/or renovate University facilities.

- **CSU Campus Reserves Policy:** No system imposed ceiling – the proposed CSU debt policy “requires campuses to set aside reserves to fund future projects costs for university facilities and infrastructure” (CSU Legal Manual Chapter 15 – Capital Projects – Funding for University Facilities). Campuses are expected to cover the costs of planning, working drawings, and equipment associated with each project, which are estimated at about 10% of the total project cost.
- **Capital Reserve Target\*:** 10% of the cost of all capital projects included in the CSU Five-Year Capital Improvement Plan, plus .5% CRV (~\$4.4 million) to maintain flexibility for additional projects that may arise
- **Target date to reach proposed reserve level:** Variable – Funding should be available according to project timelines outlined for each project included in the CSU Five-Year Capital Improvement Plan

## Equipment Reserve

The Equipment Reserve is established to provide protection against unanticipated or disruption in funding sources for planned equipment failures that may arise during the year and/or to provide bridge funding for 5-10 year equipment and classroom refresh plans in the event that funding is unavailable to support continued implementation due to unforeseen circumstances or funding shortfalls. This reserve is meant for extraordinary equipment replacement or acquisition activity. Examples of this may include instructional equipment, classroom furnishings, IT network infrastructure, etc. Any spending out of the Equipment Reserve must be accompanied by a plan to replenish the reserve fund.

- **CSU Campus Reserves Policy:** No system-imposed ceiling – Designation for Equipment Acquisition, per ICSUAM 2001.00.
- **Equipment Reserve Target:** 10% of Current Replacement Value (CRV) of capitalized equipment. (another option is to tie the reserve target to a % or 1 year set aside of the long-term equipment and classroom refresh plans that still need to be developed...)

## Funding Source

The primary funding source for the four Reserves will be from year-end balances remaining within the University Operating Fund, as outlined in the [University Operating Fund Roll Forward Guidelines](#).

## Reporting

The University Budget Office will report annually to the President’s Administrative Team and the URPC regarding reserve balances and any uses of reserves.

## References

[ICSUAM Section 2001.00 – Designated Balances and Reserves Policy](#)

[University Operating Fund Roll Forward Guidelines](#)

[CSU Legal Manual Chapter 15 – Capital Projects – Funding for University Facilities](#)

## History

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