

State Operating Fund Reserve Policy

Background

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. Reserves are an accumulation of unrestricted funds set aside for unexpected expenses, losses, cash flow shortages, and/or for future planning purposes. Reserves are a component of prudent and responsible fiscal planning. They are not unspent money or lost opportunity. At a minimum, reserves in the following four areas need to be addressed:

- Contingency
- Current Operations
- Capital Improvements and Construction
- Maintenance and Repair

Reserve Policy Principles

- Reserves should never be used to make up for expected revenue shortfalls unless there is a near-term plan to make up the revenue or reduce the expenditures.
- While it is appropriate to use reserves to resolve timing problems, reserves should never be budgeted to address structural deficits or to cover over-spending.
- The Current Operations 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 good long-term decision making.
- The Contingency Reserve should be used only in emergency situations and must not be viewed as a source of flexible funding for new opportunities that were not anticipated in the budget.

Reserve Policy Guidelines

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

Contingency Reserve

The Contingency Reserve is set aside for large scale emergencies or State/CSU funding changes. This reserve reflects the absolute minimum operating reserve level that should be maintained by the University.

- 2% of Base Budget Expenditures (\$2.5 million in 2015-16)
- Target date to reach proposed reserve level: Immediately

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Reserve for Current Operations

The Current Operations reserve is used to cover unforeseen costs and one-time activities or initiatives that may arise during the year. Any spending out of this reserve must be accompanied by a plan to replenish the reserve fund within one fiscal year. In the event that the reserve is not restored by the end of the following fiscal year, an automatic trigger will occur to replenish the reserve out of unrestricted/unencumbered divisional roll forward based on a rate proportional to the distribution of the current year base expenditure budget.

- 2% of Base Budget Expenditures (\$2.5 million in 2015-16)
- Target date to reach proposed reserve level: 2019-20

Reserve for Capital Improvements and Construction

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 Improvements and Construction reserve. CSU Capital Planning, Design and Construction (CPDC) currently estimates the needed reserve level for capital and maintenance between 1% (\$6.7 million) and 3% (\$20.1 million) of the Current Replacement Value (CRV) of University facilities.

- A reserve target will be developed once the new capital funding framework is more clearly defined.
- Funding in the Property Management & Development Fund and the CSU Fund 485 Investment Fund has been identified to begin to build this reserve.

Reserve for Maintenance and Repair

The primary funding source for the Maintenance and Repair reserve is the Rental of University Facilities Trust (TV034). While the primary purpose of the Maintenance and Repair reserve is deferred maintenance, it may also be leveraged for future capital renovation or construction projects as appropriate. Note - This reserve is included in the 1%-3% of CRV reserve level for capital and maintenance.

- The University Budget Office will work with Facilities Management over the next year to develop a long-term deferred maintenance and reserve plan.

Reporting

The University Budget Office will report annually to the URPC regarding reserve balances and any uses of reserves.