

# University Operating Fund Reserve Policy

## [Policy Number]

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 the CSU Reserve Policy, Humboldt State has established the University Operating Fund Reserve Policy to guide University Operating Fund reserve planning efforts.

### 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 to cover unexpected costs or revenue decreases within a given year. Unspent contingency at year-end will be allocated to reserves. (Note: Contingency is not covered within the Reserve Policy and will be covered under a separate policy)

**Reserve:** A one-time, unbudgeted source of funding. Once reserves are spent, they are gone, unless replenished from an alternate funding source. Reserves are 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. At a minimum, reserves in the following three areas need to be addressed:

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

### 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.
- 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 good long-term decision making. Any spending out of the Operating 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 year-end roll forward balances by division.

- **CSU Campus Reserves Policy (Reserve for Economic Uncertainty):** Up to 6 months (50%) of budgeted operating costs
- **Operating Reserve Target\*:** 10% of Base Budget Expenditures (10% of the 2016-17 budget would equate to approximately \$13 million)
- **Target date to reach proposed reserve level:** Variable – growth in Operating Reserve should be evaluated in conjunction with Capital Reserve investment needs
- **Funding Source:** State Operating Fund (General Fund)

### 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)
- **Target date to reach proposed reserve level:** Majority of target exists – continue to build with available funding from Rental of University Facilities Trust
- **Funding Source:** Rental of University Facilities Trust

\*Targets are based on a percentage; dollar amounts are provided for context only and are subject to change. Once initial targets are reached, the policy shall be revisited to recalibrate the targets to meet campus reserve planning needs.

## 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
- **Funding Sources:** Various - University Operating Fund, CSU Fund 485 Investment Fund, TBD

## Reporting

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

## References

[ICSUAM Section 2001.00 – Campus Reserves Policy](#)

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

CSU Debt Policy (not yet available)

## History

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Issued: MM/DD/YYYY

Revised: MM/DD/YYYY

Edited: MM/DD/YYYY

Reviewed: MM/DD/YYYY

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