Policy on University & Auxiliary Operating Reserves

PURPOSE:
To provide guidelines for CSU Channel Islands (CI) operating, auxiliary enterprises, and auxiliary organiza~~i~~tions in establishing adequate reserves and reporting proper reserve designations to the Office of the Chancellor and the State of California. ~~-~~The University and Auxiliaries shall establish, review, and approve the funding levels annually in accordance with this policy, the established budget process, and the availability of funds.

BACKGROUND:
The establishment of adequate reserves for auxiliary organizations is required to meet the California State University financial standards established in Education Code, Section 89940(b). CI~~Channel Islands~~ is adopting this requirement for all entities and/or funds established to support the mission of the University. These include but are not limited to the campus operating fund, ~~e~~Extended ~~e~~University~~ducation~~, student housing funds, parking funds, Site and Finance Authorities, University Glen, Associated Students Inc., and the C~~hannel~~ I~~slands~~ Foundation. The guidelines established in this policy will serve as a foundation for establishing fund specific reserves.

Accountability:
The Chief Financial Officer (CFO) is responsible for monitoring reserves to ensure that amounts are in compliance with this policy and are consistent with campus plans and requirements. (ICSUAM policy 2001-00)

Applicability:
The policy applies to all ~~campus~~University administrative and academic units, auxiliary enterprises, and auxiliaries organizations.

POLICY TEXT:
All specific fund and/or entity reserves shall at a minimum include:

- Maintaining an adequate level of reserves.
- Minimally, working capital reserves shall be no less than three months of estimated payroll expenses or no less than six months of operating expenses; dependent upon fund requirements. Reserve balances shall not be in excess of 100% of the annual operating budget, or if specified per ICSUAM 2001-00.
    - If a reserve balance falls below the established minimum, a contingency plan must be created to restore the minimum balance requirement.

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- If a reserve balance is in excess of maximum at the end of the fiscal year (June 30), the entity will demonstrate the reason behind the excess, and submit a plan to reduce the fund balance.
- During a period of extreme fiscal crisis, the ~~campus~~University's CFO may choose to suspend this requirement for a specified period.

- Understanding that the ~~campus~~University and auxiliaries operate under different circumstances and conditions, which may change over time, the responsibility for the execution and implementation of this policy is with the CFO.

Based on an evaluation of the need for designated reserves, entities and or University~~campus~~ fund managers must establish a reserve policy to addresses the following designations, as appropriate:

a. Economic uncertainty
b. Working capital
c. Capital programs
    i. Operating Fund
d. Debt service
    i. Major Maintenance and Repair/Capital Renovation and Upgrade
    ii. Working Capital
    iii. Capital Development for New Projects
    iv. Catastrophic Events
e. Future business requirements

Reserve Designations:

A. **Economic Uncertainty:** A portion of the reserve fund shall be maintained to provide for unanticipated major expenses or reductions in income resulting from shortfalls in enrollment or business interruptions.
    i. Per California State University (CSU) policy 2001.00 funds may establish and maintain reserves for economic uncertainties that do not exceed more than one-half of the projected annual operating budgets.

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CSU Fund	CSU Despription	CI Fund*
441	Continuing Education	TH901; TH910; TH915
451	Health Facilties	TE901
463	Instructionally Related Activities Trust	TK910; TK920
464	International Programs Trust	
471	Parking Fines and Forfeitures	TF901
472	Parking Fees	TG901
481	Lottery	LA910; LA915; LA920
485	CSU Operating	GD9**
531	Housing Operations	TT901
534	Campus Union Operations	DA005
*Please contact Budget & Planning for current list of funds		

B. **Working Capital:** An analysis shall determine if the amount of cash on hand is sufficient to cover operating expenses during those times when expenditures may precede revenue.

C. **Capital Programs – Operating Fund:** The California Budget Act of 2014-15 shifted the debt for existing financed capital projects to the CSU, along with an augmentation to its operating budget to service the existing general obligation and lease revenue debt. However the state did not provide augmentations to the operating budget for new facilities and deferred maintenance projects. And so, in accordance with the Budget Act, the CSU must now allocate a portion of its operating budget for funding for new buildings, campus infrastructure, scheduled maintenance, and deferred maintenance projects. Given this, universities~~campuses~~ must set aside reserves for any new capital projects, critical facility renewal projects, and maintenance.

D. **System-wide Revenue Bond (SRB) Debt Service:** A portion of the reserve fund shall be maintained at a level sufficient to cover the maximum annual debt service on outstanding bonds associated with financing and owned buildings and the amount of interest due at the next interest date. Executive Order 994 "Financing and Debt Management Policy" requires each projct on the campus and auxiliary to maintain a the following Debt Service Coverage Ratios (DSCR) : 1.45 systemwide; 1.35 university~~campus~~ and 1.10 for each stand alone project. DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio is

the benchmark for decision making about new debt and management of current debt. All debt payments will be made on time and that the reserve is at or above the published benchmarks. A portion of the SRB debt service reserve shall be maintained for building maintenance and/or equipment repair/replacement.

All University~~campus~~ facilities shall have a maintenance and renewal plan, forecasting at least ten-years, and shall be updated based upon current studies, emergency repairs, or maintenance completed. The University~~campus~~ and auxiliaries must develop a plan that sets a target for funding levels with dollar amounts for contributions to the reserve fund that aligns with the maintenance and renewal plan. This plan will include any building/equipment repair projects which will be submitted to and approved during the annual budget process.

E. **Future Business Requirements:** A portion of the reserve fund shall be maintained to provide for future business requirements and/or new requirements for current business that have been recognized by the University as appropriate and within the educational mission of CI.

Use of Reserves:
Reserves may be budgeted to cover operations in cases where other reasonable methods have been insufficient to maintain a balanced budget. There are three primary uses for reserves:

1. To protect the University in cases of sudden shortfalls in revenue (unforeseen shortfall in enrollment or a reduction in state appropriation);
2. To cover unanticipated expenses (major disasters, equipment failures, unanticipated cost increases);

   (Scenarios above may reduce the reserve balance below the minimum requirements, but due to the nature of these unexpected expenses a plan should be written to document how the entity plans to return to at least minimum levels within in a reasonable time frame.)
3. To provide one-time funding for campus initiatives after minimum reserve requirements are satisfied.
   a. One–time funding allocations shall not reduce the fund balance below it's minimum requirements. If such requests will reduce the fund balance below the minimum the one-time funding shall not be approved.