Rogue Community College

Reserve Philosophy

The Board of Education has a fiduciary responsibility to ensure effective, efficient management of funding provided to the College to fulfill its mission of providing educational opportunities for student success and economic development. Budgeting involves all segments of the College and is a continuous process designed to ensure the best use of available funding. Budget management requires short-term and long-range planning and involves setting up program priorities, requesting funding, allocating available funds to various programs and projects, preparing and maintaining the budget, and reporting on the use of funds and intended use of any unexpended funds. Board Policy 6250: Budget Management requires the College to maintain not less than 5% of the total budgeted operating funds revenue. Operating funds are General Fund, Intra-College Fund, Renewal and Replacement Fund. Revenue includes community college support fund, property taxes, tuition and fees, and other recurring revenue, such as investments earnings and interest income.

The Board of Education and administration recognize reserves as a key component of stewardship and critical resources supporting the College's growth and sustainability. Further, external stakeholders such as accreditors, auditors, lenders, grantors, and donors will measure reserves when assessing the College's overall financial health.

Guiding Principles for Reserves

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

- Stability Reserve
- PERS Reserve
- Maintenance Emergency Reserve
- Renewal and Replacement Reserve

It is necessary for Rogue Community College to maintain financial reserves adequate to ensure responsible fiscal management, advance College priorities, and mitigate current and future risk.

Building reserves is an important component of long-term, strategic planning to meet the College's objectives; failing to plan for maintenance of buildings and infrastructure adequately is unsustainable and poses an unacceptable risk to the College 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.

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The College's cash position throughout the year varies widely as expenditures and revenue are not on the same cycle. The College's expenditures, the largest of which is personnel related costs, are generally even throughout the year. The three largest revenue sources, tuition and fees, state reimbursement and property taxes each have a unique schedule creating cash deficits. Cash receipts from tuition and fees are aligned with the payment dates for each term, with the majority received in September, January, and April. Property tax cash receipts for the current year begin arriving in November, with comparatively minimal amounts received in other months. Cash receipts from state reimbursement are quarterly, except for the last payment of the biennium that is not received until the following quarter. When faced with a cash deficit, the College uses reserves to manage cash, as this is a no-cost or low-cost and administratively simple. If these options are not sufficient to generate needed cash, the College can turn to external options that are costly and administratively burdensome.

To minimize costs, the College endeavors to maintain the Stability and PERS reserves at a minimum of three months (25%), with a maximum of six months (50%), of cash outflows. The target date to reach the minimum reserve level will be evaluated in conjunction with other reserve investment needs.

Funding Source

The primary funding source for the Stability Reserve, PERS Reserve, and Maintenance Emergency Reserve will be a transfer from the General Fund. The primary funding source for the Renewal and Replacement Reserve will be the technology fee charged to students.

Reporting

The Budget Office will report annually to the Vice President of Operations and Finance/CFO regarding reserve balances. The VP/CFO will provide the College President and Executive Team an update with recommended investments or usage of these funds.

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Definitions

<u>Contingency</u>: 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. General Fund contingency will be set at a minimum of $500,000 and a maximum of $1 million. (Note: The Contingency is part of the annual operating budget and is not covered within the Reserve Policy.)

<u>Reserve</u>: An accumulation of unrestricted funds set aside to address unexpected, nonrecurring costs. 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 the College has the resources for the activities needed to help students be successful. The College 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.

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

<u>PERS Reserve</u>: The PERS Reserve was established to offset potential losses from annual investment returns on the bond proceeds. The pension bond proceeds are deposited in “side accounts” at PERS, which invests the money. PERS gradually draws on the side accounts over the life of the bond to offset annual pension contributions. The account draws are called rate credits, and the system's actuary recalculates them every two years in order to exhaust the side account at the same time the bonds are paid in full. If investment returns are high, side accounts grow, as do rate credits. If the market struggles, the account balance decreases, and the rate credits shrink. This reserve is available to pay the debt service for approximately two years, allowing the College time to adjust to a significant loss (more than 8%) in the rate credit.

Until these reserves are needed, they will be used to reduce the cash flow stress inherent in a community college's cash flow.

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Other Reserves:

- The Maintenance Emergency 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 Emergency Reserve is not intended to be a sustained resource for planned deferred maintenance projects. A separate deferred maintenance budget shall be established to address ongoing deferred maintenance and capital renewal needs. While the primary purpose of the Maintenance Emergency 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 a reserve replenishment plan accompanies the documented use of reserves. The Maintenance Emergency Reserve funding will not exceed $550,000. A replenishment plan must accompany any spending of these funds.

- The Renewal and Replacement Reserve is established to provide protection against unanticipated disruption in funding sources for unplanned equipment failures. The Renewal and Replacement Reserve may also provide bridge funding for 5-10 years of equipment and classroom refresh plans in the event that funding is unavailable to support continued implementation due to unforeseen circumstances or funding shortfalls. The Renewal and Replacement 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 of the Renewal and Replacement Reserve must be accompanied by a plan to replenish the reserve fund. The target reserve is 10% of the annual revenue earned from the technology fee charged to students.