RESERVES MANAGEMENT POLICY

Portland State University’s ability to fulfill its mission for the benefit of current and future students depends on sound fiscal management and the maintenance of adequate University reserves. The Board finds that adequate reserves are necessary for the long-term health and sustainability of University operations; for the proper custodianship of the physical plant necessary for the delivery of University services; for the prudent coverage of outstanding debt; to enable the University to make strategic investments; to insure that the University can perform day-to-day operations in the event of unforeseen shortfalls; and to better position the University in the event of a catastrophic interruption of service. University operations are susceptible to the volatility of primary revenue streams, operational cost drivers beyond the University’s control, contractual obligations that are difficult to minimize during periods of financial distress, the business cycles of disparate business enterprises, and the risk of complete or partial interruption of University services.

This policy sets forth the principles governing the establishment and maintenance of University reserves. This policy describes the framework for establishing University reserves through the set-aside or restriction of financial assets. While this is a stand-alone policy, the Reserves Management Policy should be considered in conjunction with other University budget, debt and financial management policies and procedures.

I. Definitions

A. “Board” means the Portland State University Board of Trustees or the Executive and Audit Committee when authorized to act on behalf of the Board.

B. “Capital Reserves” means funds restricted for the repair or replacement of existing physical plant and equipment.

C. “Central Reserve” means the unallocated E&G Fund balances held centrally and managed by the Finance and Administration division.

D. “Debt-Paying Entity” means a department of the University directly responsible for the generation of revenues for the payment of principal and interest on a distinct issuance of University-Paid Debt.

E. “Educational and General (E&G) Fund” means the family of funds utilized for the core mission of the University—including funds appropriated by the state, tuition and fees, indirect cost recovery, and other miscellaneous income derived through the provision of education.

F. “Maximum Annual Debt Service” means the greatest amount of principal and interest required to be paid during any fiscal year for a department’s current debt portfolio and existing debt service schedule.

G. “Operating Reserves” means E&G fund balances held and managed at the divisional level.

H. “Primary Reserve Ratio” is a ratio measuring the financial strength of the University by comparing expendable net assets to total expenses. Expendable net assets represent
those assets that the University can access quickly and spend to satisfy its debt and operating expense obligations. This ratio provides a snapshot of financial strength and flexibility by indicating how long the University could operate using existing expendable funds only.

I. “Risk Management Claims Reserve” means the fund through which the University’s property and casualty claim expenses are paid, within any applicable deductible.

J. “Treasury Reserve” means the fund through which all University-Paid Debt service and associated treasury fees are processed for payment to outside agencies. Additionally, this fund acts as the repository for cash balances equal to the Maximum Annual Debt Service for each individual Debt Paying Entity.

K. “University-Paid Debt” means borrowings that are expected to be repaid from revenues of the University. This includes Article XI-F(1) Bonds, certain Article XI-Q Bonds, certain Certificates of Participation (COPs), certain State Energy Loan Program (SELP) loans, revenue bonds, bank products, commercial paper, and alternative financing structures, such as public-private partnerships, that would be included in the University’s balance sheet or considered on-credit by rating agencies.


II. Roles and Responsibilities

The Board retains authority and responsibility for:

A. Reviewing annual reports on the University’s Primary Reserve Ratio and component reserves.

B. Approval of the set-aside and restriction of cash to achieve the goals and requirements of this Policy, generally as part of the annual budget process.

C. Establishment and approval of a plan to increase the Primary Reserve Ratio, generally as part of the annual budget process, if the Primary Reserve Ratio is below the minimum required by this Policy.

D. Reviewing this policy at least every five years and amending the policy whenever necessary.

The Board delegates to the President, who may further delegate to other University officials, authority and responsibility for:

A. Implementing this policy and overseeing management of daily activities related thereto.

B. Establishing a comprehensive program for Central, Operating, Working Capital, Capital, Treasury and Risk Management Claims Reserve establishment, management and reporting. Such a program is to clearly assign responsibilities within the University and require regular monitoring to satisfy reserve requirements.

C. During annual budget processes, recommending corrective action when reserve levels are below the minimum target.
D. Recommending appropriate action and use of reserve balances if unforeseen events and economic factors require short-term deficit spending and a reduction to the Primary Reserve Ratio.

E. Analyzing and presenting recommendations to the Board regarding Operating and Capital Reserve levels and emergency use.

III. Reserve Goals & Objectives

The Primary Reserve Ratio is the measure by which the Board monitors the University’s long-term financial sustainability and the adequacy of University reserves. The Board establishes 0.25 as the target minimum Primary Reserve Ratio for the University. This is equal to maintaining expendable net assets adequate to cover at least three months of University expenses.

The Board recognizes that the National Association of College and University Business Officers (NACUBO), an organization representing more than 2,500 colleges, universities, and higher education service providers with a mission to advance the economic viability, business practices and support of higher education institutions, recommends a Primary Reserve Ratio of 0.4 or greater. The Board establishes 0.4 as an aspirational Primary Reserve Ratio.

IV. Component Reserve Standards

A. Central Reserve

As a target minimum, the University will hold as fund balance, 12.5% of the annual E&G Fund budget and an additional 12.5% of the central University operating budget, for the Central Reserve managed by the Finance and Administration division.

B. Operating Reserves

University divisions within the E&G Fund shall, on behalf of their units, establish 12.5% of their respective annual E&G Fund budget as an Operating Reserve target minimum.

The University may, if necessary, transfer some or all funds from Operating Reserves if Central Reserves are inadequate to meet University needs.

C. Working Capital for Auxiliary Enterprises and Service Departments

Auxiliary enterprises and service departments shall maintain sufficient Working Capital to promote the efficient and effective operation of the unit, avoid significant fluctuations in fees charged for services, and minimize the potential for unanticipated financial shortfalls that may impact other funds of the institution. As a target minimum, auxiliary enterprises and service departments are to hold three months of total annual departmental expense as a Working Capital balance (based on actual expenditure data excluding depreciation).

D. Capital Reserves for Auxiliary Enterprises, Service Departments and Self-Liquidating Activities
Auxiliary enterprises, service departments and other self-liquidating activities shall maintain building/Improvements Other Than Building (IOTB) repair and equipment replacement reserves for the purpose of funding the repair or replacement of depreciable assets. Such reserves shall be sufficient to promote the efficient and effective operation of the related operating unit, avoid significant fluctuations in fees charged for services, and minimize the potential for unanticipated financial shortfalls that may impact other funds of the University. Each auxiliary enterprise, service department and self-liquidating activity with capital assets of $150,000 (recorded cost) or more shall prepare and adhere to a plan to implement the requirements of this paragraph, as directed by the Vice President of Finance and Administration.

E. Treasury Reserves

All Debt-Paying Entities, having been assigned the responsibility to direct revenues towards some portion of the annual principal and interest requirements of University-Paid Debt, shall set aside and restrict cash balances equal to their respective Maximum Annual Debt Service. Cash balances equal to Maximum Annual Debt Service are to be set aside and restricted within four fiscal years of the issuance of any new University-Paid Debt and its assignment to a Debt-Paying Entity. This requirement shall continue until such time as all outstanding principal balances assigned to the Debt-Paying Entity are fully defeased.

F. Risk Management Claims Reserve

The University shall maintain sufficient funds, set aside within the Risk Management Claims Reserve, necessary to pay anticipated property and casualty claims, within any applicable deductible. This amount shall be determined annually, in the course of the University’s budget process, based on prior years’ claims experience and actuarial forecasts of anticipated claims expenses.

V. Measurement Principles

All ratio or reserve measurements and calculations will use a fiscal year ending June 30 and be based on industry standards and generally accepted accounting principles. Calculations will utilize information contained in annual financial statements and/or data available from the University’s Enterprise Resource Planning software system.

VI. Reporting Requirements

Upon release of the University’s annual audited financial statements, the Finance and Administration Committee and the full Board are to be provided a report regarding the University’s Primary Reserve Ratio as identified in Section III above.

At least annually, and when additionally requested, the Finance and Administration Committee is to be provided a report regarding the status of each of the component reserves detailed above.

APPROVED BY THE BOARD OF TRUSTEES
June 16, 2016