

University Reserves

Q&A

Why do Universities need reserves?

Reserves provide a buffer for certain times throughout the year where the monthly expenses may be greater than monthly revenue, such as summer term. With all funds budget of \$603 million, our average monthly expenditures are \$50 million. The university needs to ensure it has at least 60 days (2 months) of cash on hand during the year so that day-to-day operational costs can be covered in the event of unforeseen shortfalls.

Reserves also allow us to make important investments. For instance

- The Housing department recently spent \$6.5 million of their restricted reserves on a much needed renovation to the St. Helens building.
- The University has recently committed \$5 million of Central Education and General Fund (E&G) reserves for two New Research Centers (\$3 million) and a Marketing and Branding Campaign (\$2.6 million)

Unit and central reserves can also provide a cushion in the event of a budget crisis. In 2013, approximately \$16.4 million of E&G reserves were used to offset significant reductions in state support (see [unit and central E&G reserve balances](#) for details).

While PSU has been able to increase its reserves over the last few years it is worth noting:

- Moody's, an independent credit rating agency, lists "Moderate financial resources relative to operations" as a credit challenge for PSU.
- That using a standard measure of a primary reserve ratio (expendable net assets divided by total expenses) PSU is lower than all other Oregon public universities except Southern Oregon University (see [PRR comparison Financial Dashboard page 21](#))
- The National Association of College and University Business Officers (NACUBO) recommends a primary reserve ratio of 0.4 or 20.8 weeks of reserves. PSU's Board of Trustees has established a target minimum of 13 weeks and at the close of FY19 PSU had 9.4 weeks of reserves.

How much do we have in E&G reserves and where do those reserves reside?

The [Finance and Administration Financial Dashboard](#) provides an annual report of all components of the university's reserves as well as a five year history. Approximately 50% of E&G reserve funds are located in and managed by individual units (e.g. individual schools and colleges), the other 50% is held centrally. As a general rule unit reserves are for their use not university-wide initiatives. The University Budget Office has a breakdown of [unit and central E&G reserve balances](#) over time.

What were the components of the FY19 net gain of \$26.8 million before depreciation and which of those might be expected to occur in FY20?

Approximately \$9 million of these funds were in restricted funds and have commitments associated with them. The three major components of the \$17.8 million positive net in E&G Funds consist of

- \$5 million related to an unrealized gain on investments accounting entry. Per accounting standards, we must record any gains or losses on investments as of the close of each fiscal year (June 30). This entry records the theoretical profit or loss that exist on paper from investments that have not yet been sold for

cash. These types of accounting entries do not provide cash for the university to spend and may flip from a gain or loss depending on the year. For example, instead of a gain, we recorded a \$1.9 million unrealized loss on investments in FY18.

- \$4 million as the planned Addition to Central Reserves (Held for Risk Abatement) that was built into the FY19 E&G operating budget. This line item was removed in the FY20 budget as a way to offset higher reductions in units.
- \$8.8 million due to budget underspending mostly from fully funding vacant positions and savings in services and supplies budget (e.g. utilities and insurance costs). It is split between Central (\$3 million) and Operating (\$5.8 million) reserves. Operating reserves are the unutilized E&G fund balances held by and managed at the operating division level (e.g. Academic Affairs).

Of the three major components, the first two are not expected to occur in FY20. The third was anticipated to occur, however, this amount will be used to address a revenue shortfall in FY20 as described below.

Why is FY20 different from FY19?

The current FY20 budget incorporated increased costs relative to FY19 budget, principally compensation increases and higher benefits costs (mostly retirement costs). Each of the major divisions and departments were asked to find savings for FY20 and, even after this, the overall cost increases in our E&G Fund budget were \$15.5 million. An increase in state funding of \$9.2 million was inadequate to cover these increases. To reach a balanced budget we also planned around an increase in net tuition revenue of approximately \$1.5 million (based on tuition increases offset by modest enrollment declines), a small increase in other E&G revenue of \$0.8 million, and that we would no longer budget \$4 million of funds Addition to Central Reserves (Held for Risk Abatement). These funds were historically set aside in case we did not meet our revenue target.

As a reminder, the lower than expected enrollment experienced in Summer and Fall, which is not expected to recover in subsequent terms, creates an estimated gross tuition revenue shortfall of over \$7.5 million. As we have reviewed historical spending patterns and spending patterns this year, we anticipate there will be an underspend of the E&G expenditure budget in FY20. As we believe this will occur again, we are asking that each division (e.g. Academic Affairs, Finance & Administration) plan to underspend their general fund budget by up to \$6 million and thus avoid budget cuts. This approach along with a plan to find \$2 million in savings from less spending on remissions, will allow us to offset the decline in tuition revenue.

Where can I learn more?

The university's budget is available publicly, as is much of the documentation that supports its development. We have endeavored to provide additional information and clarification in this communication. Additionally, the University Budget Office welcomes any questions to budget@pdx.edu. More detailed information can be found below.

The Budget Office Website: <https://www.pdx.edu/budget/university-budget-fiscal-years-0>

The Financial Statements/Dashboard: <https://www.pdx.edu/fadm/financial-statements-dashboard>

The Board of Trustees Finance & Administration Committee meeting materials, minutes, and presentations: <https://www.pdx.edu/board/finance-and-administration-committee>