



## ADMINISTRATIVE PROCEDURE

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**TITLE: Reserves**

**ADMINISTRATIVE PROCEDURE # 6305**

**RELATED TO POLICY # 6300 FISCAL MANAGEMENT**

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### A. Definitions

- 1. 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, as approved by the President and the Board of Education according to Oregon Budget law, to cover unexpected costs or revenue decreases **within a given year**. Oregon budget law restricts amount of transfers from contingency by resolution over the course of the year to no more than 15 percent of the original appropriation in the fund.
- 2. Reserve:** An accumulation of unrestricted funds to be **“saved” for use in future fiscal years** for economic uncertainties, unexpected expenses, losses, cash flow shortages, large repairs or renovation projects, the acquisition and development of new facilities, and/or for future planning.
- 3. Unrestricted fund balance** is limited to the portion of the fund balance that is unreserved. Unreserved is to mean not set aside for other existing obligations of the College.

### B. Reserve Procedure Guidelines

The College will establish and maintain reserve funding to reach long term expenditure goals identified through multi-year planning, goal setting and projection of costs; to ensure responsible fiscal management, advance the College priorities, and mitigate current and future risk. It is the goal of the College to work toward establishing reserves at the following levels:

1. Operating Contingency and Reserves – General Fund
2. Capital Reserves (Capital Projects fund – Deferred Maintenance)
3. Technology Replacement Reserves (Special Revenue Fund – Administratively Restricted)
4. Strategic Investments Reserves – (Special Revenue Fund – Administratively Restricted)

Reserves are a one-time source of funding. Once they are spent, they are gone, unless replenished from an alternate funding source. 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.

## **C. Operating Contingency and Reserves - General Fund**

### **1. General Fund Contingency**

The College will maintain a General fund contingency equal to at least five (5) percent of the approved annual operating budget not including transfers out.

Any use or appropriation of the contingency will be in compliance with Oregon budget law and require approval by the Board of Education.

a. The Contingency will be used to:

- 1) Offset unanticipated shortfalls in operating revenue;
- 2) Fund unforeseen one-time expenses that cannot be funded in the current fiscal year through the operating budget;
- 3) Provide funding to avoid the need to raise tuition or reduce service levels due to temporary revenue shortfalls; and/or
- 4) Fund contingencies or emergencies as determined by the College President.

### **2. General Fund Reserves**

- a. A General Fund Reserve is established and maintained to ensure the continued delivery of services, to address emergencies, to serve as a buffer against enrollment fluctuations, to protect against fluctuations and delays in the level of State funding, to address a temporary revenue shortfall or provide stability during economic cycles. Sufficient reserves will be managed to provide adequate cash flow, stabilize the College's interest rates and provide continuity in service delivery.
- b. The College's General fund reserve shall be a minimum of 13% with a target of 20% of the annual operating budgeted expenditures to ensure institutional stability and long-term fiscal integrity. If the reserve reaches as low as 15%, the College will develop a plan to restore the reserve to greater than 15% within two years.

#### **D. Capital Reserves (Capital Projects Fund – Deferred Maintenance)**

1. Capital reserves is an important component of long-term, strategic planning to meet the College's objectives. Failing to plan to adequately maintain our buildings and infrastructure is unsustainable and poses an unacceptable risk to the College and its community.
2. Capital reserves shall be set up in the Capital Projects Fund - Deferred Maintenance to provide the funding necessary to acquire, develop, proactively manage, and/or renovate College facilities. Reserves can also be available for unforeseen or catastrophic capital needs in compliance with Oregon Budget law. These funds are internally restricted with the minimal target balance of \$300,000 that will be generally replenished annually if used.
3. No imposed cap shall be set for the Capital reserves as the College is expected to cover the costs of deferred maintenance, planning, working drawings, and equipment associated with new construction projects, which are estimated at about 10% of the total project cost.
4. Target date to reach proposed reserve level is variable as funding should be available according to project timelines outlined for each project included in the Five-Year Capital Improvement Plan.

#### **E. Technology Replacement Reserves (Special Revenue Fund – Administratively Restricted)**

1. Technology replacement reserves shall be set up in the Special Revenue Fund – Administratively Restricted to provide funding necessary to replace information technology infrastructure equipment. The reserves are established to provide protection against unanticipated or disruption in funding sources for planned information technology equipment failures that may arise during the year and/or to provide bridge funding for 3-5 year equipment and classroom refresh plans in the event that funding is unavailable to support continued implementation due to unforeseen circumstances or funding shortfalls. This reserve is meant for extraordinary equipment replacement or acquisition activity. Examples of this may include instructional equipment, IT network infrastructure, etc.
2. These funds are internally restricted with the minimal target balance of \$300,000 that will generally be replenished annually if used with a cap of \$900,000.
3. Target date to reach proposed reserve level is variable as funding should be available according to project timelines outlined in the Technology Plan.

#### **F. Strategic Initiative Reserves**

1. The College shall establish strategic initiative reserves designated for future investment funds related to strategic investments of the College. Appropriate potential uses could include capital equipment purchases, investment in

technology or in a new program or service that will move to recurring funding sources after a specified trial period, and projects related to the strategic direction of the college.

2. These funds are internally restricted with the minimal target balance of \$250,000. The target date to reach proposed reserve level is variable as funding should be available according to project timelines outlined in strategic plan.

#### **G. Funding of the Contingency and Reserves**

1. The General Fund contingency will be funded during the budget planning process from the unrestricted fund balance available at the end of each fiscal year.
2. Funding of the General Fund reserves will generally come from excess revenues over expenditures and/or the year-end unrestricted fund balance.
3. Once the General Fund contingency and reserve targets are met, and the General Fund beginning fund balance resource exceeds the budgeted amount, the balances in excess may be transferred to reserves for capital, technology and strategic initiatives after any one-time allocations reflected in the approved budget and/or replenishing any prior use of reserves as follows:
  - a. 40% for capital projects reserves
  - b. 35% for technology replacement reserves
  - c. 25% retained to grow the strategic initiatives reserves

#### **H. Contingency and Reserves Oversight**

The Chief Financial Officer, or the designee, will manage and monitor the contingency and reserves and report on the current and projected level of the General Fund unrestricted fund balance during each budget process.

#### **REFERENCES:**

**ORS 294.346**

**Oregon Department of Revenue "Local Budgeting Manual" (150-504-420)**

**OAR 150-294-0340**

#### **RESPONSIBILITY:**

The Chief Financial Officer is responsible for implementing and updating this procedure.

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#### **NEXT REVIEW DATE:**

**DATE OF ADOPTION: 4/15/2021 by CC**

**DATE(S) OF REVISION:**

**DATE(S) OF PRIOR REVIEW:**