

**PM 2022-02**

President Thomas A. Parham

April 18, 2022

**UNIVERSITY OPERATING FUND RESERVE POLICY**

**I. PURPOSE**

Effective October 1, 2015, the Integrated CSU Administrative Manual (ICSUAM Section 2001.00) formalized and established a systemwide policy on the creation and use of reserve balances. To further define the CSU Reserve Policy, Dominguez Hills has established the University Operating Fund Reserve Policy to guide University Operating Fund reserve planning efforts.

**II. DEFINITIONS**

**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, to cover unexpected costs or revenue decreases within a given year. Unspent contingency at year-end will be allocated to reserves. (Note: The Contingency is part of the annual operating budget and is not covered within the Reserve Policy.)

**Reserve:** An accumulation of unrestricted funds set aside for economic uncertainties, unexpected expenses, losses, cash flow shortages, large repair or renovation projects, the acquisition and development of new facilities, and/or for future planning purposes. Reserves are a one-time source of funding. Once reserves are spent, they are gone, unless replenished from an alternate funding source.

**III. RESERVE POLICY PRINCIPLES**

It is the policy of CSU Dominguez Hills to maintain financial reserves adequate to ensure responsible fiscal management, advance University priorities, and mitigate current and future risk.

- Building reserves is an important component of long-term, strategic planning to meet the University's objectives.
- 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.

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

- Operating Reserve
- Maintenance Reserve
- Capital Reserve (Capital Improvement Fund)
- Equipment Acquisition Reserve

#### IV. RESERVE POLICY GUIDELINES

It is the goal of the University to work toward funding reserves at the following levels:

##### A. Operating Reserve

The Operating 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 University may suffer cash flow stress and distraction from appropriate long-term decision making. The Operating Reserve may also be used on a short-term basis to fund strategic initiatives. Any Operating Reserve spending must be accompanied by a plan to replenish the reserve fund.

- **CSU Campus Reserves Policy (Reserve for Economic Uncertainty):** Up to 6 months (50%) of budgeted operating costs
- **Operating Reserve Target:** 25% of Base Budget Expenditures

##### B. Maintenance Reserve

The Maintenance Reserve provides 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 Reserve is not intended to be a sustained resource for planned deferred maintenance projects. A separate, ongoing deferred maintenance budget shall be established to address ongoing deferred maintenance and capital renewal needs. While the primary purpose of the Maintenance 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 the documented use of reserves is accompanied by a reserve replenishment plan.

- **CSU Campus Reserves Policy:** No system-imposed ceiling – Association of Physical Plant Administrators (APPA) recommends a reserve level for capital and maintenance between 1% and 3% of the Current Replacement Value (CRV) of University facilities.
- **Maintenance Reserve Target:** 1% of CRV of University Facilities

### C. Capital Reserve (Capital Improvement/Construction Fund)

The CSU capital funding framework requires the CSU to self-fund future capital projects, which dictates the need for Dominguez Hills to maintain a Capital Reserve. The Capital Reserve provides the funding necessary for the University to acquire, develop, and/or renovate University facilities.

- **CSU Campus Reserves Policy:** No system-imposed ceiling – the proposed CSU debt policy “requires campuses to set aside reserves to fund future projects costs for university facilities and infrastructure” (CSU Legal Manual Chapter 15 – Capital Projects – Funding for University Facilities). Campuses are expected to cover the costs of planning, working drawings, and equipment associated with each project, which are estimated at about 10% of the total project cost.
- **Capital Reserve Target:** 10% of the cost of all capital projects included in the CSU Five-Year Capital Improvement Plan.

### D. Capitalized Equipment Replacement and Acquisition

The Capitalized Equipment Replacement and Acquisition Reserve provides funding for any necessary equipment that may need to be purchased, outside of a department’s regular operations. Examples of this may include IT network infrastructure, large equipment, bleachers, etc.

- **CSU Campus Reserves Policy:** No system imposed ceiling –Designation for Equipment Acquisition, per ICSUAM 2001.00.
- **Equipment Reserve Target:** 10% of Current Replacement Value (CRV) of capitalized equipment.

## V. FUNDING SOURCES AND ALLOCATION

The University Operating Fund Reserve will be primarily funded from year-end balances remaining within the Centrally Monitored Division within the Operating Fund. Other funds may be allocated toward the Operating Fund Reserve at the discretion of the President. Unless otherwise outlined, new reserve funds will be proportionately distributed to the reserve categories based on the categories’ remaining funding need. The President has the discretion to allocate funds outside of this distribution to address strategic priorities.

## VI. REPORTING AND RECALIBRATION

Annually, the Budget Planning & Administration Office will report to the President, Executive Leadership and the University Budget Committee reserve balances and any uses of reserves. Due to annually changing budgets, capital projects, and replacement values, the amount of reserves goals should be recalculated on an annual basis. Once

targets are reached on a stable basis, the policy should be revisited to recalibrate the targets to meet campus reserve planning needs.

VII. **REFERENCES**

[ICSUAM Section 2001.00 – Campus Reserves Policy](#)

[CSU Legal Manual Chapter 15 – Capital Projects – Funding for University Facilities](#)

CSU Debt Policy (not yet available)

Approved:



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Thomas A. Parham, Ph.D.  
President

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