

# UC SANTA BARBARA

## Reserve Guidelines

Contact: Finance & Resource Management

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Pages: 3

## RESERVE GUIDELINES

### OVERVIEW

While titled “reserve guidelines” this document addresses “cash balances”. The campus invests cash balances in several UC-wide investment vehicles balancing cash liquidity needs with rates of investment returns. To reinforce the prudent stewardship of campus financial resources, these guidelines are presented to ensure responsible management of carryforward balances.

### RESPONSIBILITIES

The Chief Financial Officer is responsible for overseeing the implementation of these guidelines.

### SCOPE

These guidelines apply to all UC Santa Barbara employees administering university resources.

### RESERVES

*Equipment Replacement Reserves* – As part of the annual rate setting process, income accounts are encouraged to establish “replacement reserves” to ensure sufficient funding is available for replacement of equipment. As such, funding is set-aside from designated income accounts for future replacement on at least an annual basis. Drawdown from these reserves is dependent on replacement needs in any one year.

*Debt Coverage Reserves* – Debt associated with non-state capital projects typically require a debt coverage reserve to ensure sufficient funds are available long-term to adequately maintain the asset. Typically, the amount required is equal to 25% of the annual debt payment and these funds should be set-aside for future use. Distribution from the reserve for a specific project requires approval of the appropriate Vice Chancellor control point, the Chief Financial Officer, and the Chancellor

*Campus Projects* - The campus has identified a number of programs that have “periodic and/or uneven cash flows” and as such require funding to be set-aside annually to ensure the programs remain fully funded over time. Examples of these include deferred maintenance, faculty recruitment, and technology replacement. As part of the annual budget process funds are set-aside to meet these needs and are distributed, with the approvals of the Chief Financial Officer and the Chancellor, in the year where the actual expenditure takes place.

*Income Unit Operating Reserves* – Current guideline is to maintain cash balances sufficient to cover up to 90 days of operating expenses. In cases where cash balances exceed the 90-day guideline departments are required to take steps to reduce the balances. Typically, this involves adjustments to their service rates. A minimum reserve of at least 60 days is recommended for all income dependent programs.

## **CORE FUNDED UNITS**

Core funded units are encouraged to manage resources in such a way as to maintain a cash reserve of 30 days, net of commitments. Annual carry-forward funds requests are required to be submitted, reviewed, and approved by department management, control points (Deans and/or Vice Chancellors), and the Campus Budget Office. Request forms identify the planned use of these funds. A control point has the option of returning these funds to an account under their control or leaving them in the department account. If a carry-forward request is not submitted the funds are returned to a campus central account for reallocation to campus priorities.

Departments with account/funds in deficit are required to submit deficit reduction plans for review and approval to their control point and the Campus Budget Office detailing steps to be taken to eliminate any deficit. The use of available cash balances in other funds, if appropriate, is encouraged to cover any departmental deficit.

## **GIFT FUNDS**

As a general guideline, departments are encouraged to fully expend gift funds on an annual basis in accordance with donor desire as documented in the individual fund record sheet. In cases where this is not possible the following guidelines are in place:

- *Endowments and Funds Functioning as Endowments (FFE)* – Unexpended amounts greater than 100% of annual payouts should be added to fund principle as part of year-end closing unless planned short-term need has been demonstrated/documentated by fund manager.
- *Current Year Gifts* – If gift balances are greater than \$100,000 and not used within one year of gift date a Fund Functioning as Endowment (FFE) should be considered by the fund manager. The FFE can be established using all or just a portion of the unexpended balance. For individual fund balances less than \$50,000 at year-end plans should be made to fully utilized the gift funds within a three-year period.

## **CAPITAL PROJECTS**

Per policy funds are transferred to a project plant account for each approved capital project prior to bid. Significant cash balances can be seen in plant accounts as projects are fully funded when approved and the actual cash drawdowns can take many months. Cash balances remain in the identified plant account until the project is completed and

closed. Any balances remaining are then transferred to another appropriate account (capital or operating) for use.

### **GUIDELINE MATRIX**

Reserve Type	Guideline
Equipment Replacement	Up to full replacement cost of equipment
Debt Coverage (Non-State)	25% of annual debt payment
Campus Project	Up to full cost of specific project
Income Operating Unit	Minimum 60 days operating expense; Max 90 days
Core Funded Units	30 days net of commitments
Gift Funds – Endowments & FFE	Maximum of 100% of annual payout
Gift Funds – Current Year	Maximum of \$100,000 one year after gift
Capital Projects	100% of remaining project expenses