Note for online reference: Any materials or exhibits referenced in this approved resolutions can be found in the meeting's materials posted at https://trustees.uoregon.edu.

Board of Trustees of the University of Oregon

Seconded Motion: Repeal of Former SBHE Policy #9

Whereas, the Board of Trustees of the University of Oregon (the "Board") takes seriously its responsibility to maintain proper and responsible oversight of the university's financial health and stability and will continue to execute this obligation through routine review and analysis of financial documents and metrics;

Whereas, ORS 352.107 outlines general authorities of a university with a governing board, including the authority to spend available moneys, establish budgets, and performing any other acts required, necessary, or appropriate to accomplish the rights and responsibilities granted to the board;

Whereas, Section 1.1 of the University of Oregon's Policy on the Retention and Delegation of Authority states that the Board may rescind any policy, standard or directive; and,

Whereas, the University of Oregon inherited several outdated policies from the State Board of Higher Education (SBHE) during the transition to independent governance on July 1, 2014;

Whereas, former SBHE policy #9, "Budgeted Operations Fund Balances", is one such outdated policy as it pertains to outdated fund balance requirements placed on universities while they were part of the state university system;

Whereas, the Finance and Facilities Committee has referred this matter to the full Board as a seconded motion, recommending passage;

NOW, THEREFORE, the Board of Trustees of the University of Oregon hereby RESOLVES that former SBHE policy, attached hereto as Exhibit A, titled "Budgeted Operations Fund Balances" be repealed, effective immediately.

VOTE: Voice Vote Recorded – Ayes carried (no dissention)

DATE: December 3, 2015

Recorded by the University Secretary: AW

Budgeted Operations Fund Balances

Background:
Responsible fiscal management requires adequate reserves, or fund balances, to mitigate current and future risks. Adequate fund balances are essential to offsetting cyclical variations in revenues and expenditures and to protect against 1) catastrophic events, 2) unforeseen revenue declines and expenditure gaps, 3) unexpected legal obligations, and 4) failures and health/safety/code issues in infrastructure or major business systems.

The focus of this policy is fund balances within the budgeted operations funds, which are the primary operating funds through which all basic instruction and institution administration occur. Budgeted operations funds include state General Funds and Other Funds Limited, made up principally of student tuition and fees and also including educational department sales and services, indirect cost recovery, and other operating revenues.

For the purpose of gauging their relative value, budgeted operations fund balances can be expressed either as a percentage of annual budgeted operating revenues or as operating expenditures sufficient to fund a specified period. The Government Finance Officers Association, for example, recommends that fund balances be maintained at a level that represents 5 to 15 percent of operating revenues, or is sufficient to fund no less than one to two months of operating expenditures.

Obviously, the level of budgeted operations fund balance should be related to the likelihood of need. Given the timing of tuition assessments, revenue cycles at OUS institutions tend to spike quarterly while expenditures remain relatively flat. When combined with the volatility of state funding over the past several biennia—as well as fluctuations in enrollment and tuition dollars—the need to maintain fund balances sufficient to stabilize the operating revenue stream for short periods is clearly imperative. The institutions, for example, are particularly vulnerable to shortfalls in revenue collections during the first quarter of each biennium.

Responsible fiscal policy, then, suggests that the institutions should maintain ending biennial budgeted operations fund balances sufficient to stabilize the operating revenue stream and cover unforeseen contingencies equal to approximately one month's operating expenditures, or about 10 percent of their annual budgeted operations revenues.

At the same time, because of the funding mix of state General Funds and student tuition and fees, any excess balances could be interpreted to represent unwarranted tuition and fee rates. Consequently, ending biennial budgeted operations fund balances should not exceed approximately two months of budgeted operations expenditures, or about 15 percent of annual budgeted operations revenues.

Fund Balance Defined:
Fund balance is defined as the difference between the assets and liabilities of a fund. Given this definition, fund balance can be described as the available resources of the fund, which can be significantly different than cash balances due to accrual accounting. For instance, at June 30 of each fiscal year, campuses have received payments for summer session tuition and fees. Since summer session activity occurs predominantly in July, these receipts are recorded as a liability (deferred revenue) at June 30 to comport with accounting rules. As a result, cash balances may be higher than fund balances.

As noted above, fund balance is the difference between the assets and liabilities of a fund. Generally Accepted Accounting Principles (GAAP), promulgated by independent standards-setting groups, set forth rules for the proper recording and valuation of assets and liabilities. Each OUS institution is required to follow GAAP. Therefore, fund balance is defined consistently across all OUS institutions.

Budgeted Operations Fund Balances at June 30, 2004:

OREGON UNIVERSITY SYSTEM
SUMMARY OF OPERATING RESULTS
EDUCATION AND GENERAL FUNDS (including SWPS)
For the Year Ended June 30, 2004

(in thousands of dollars)

	EOU	OIT	OSU	PSU	SOU	UO	WOU	CO [1]	Total
2003-04 Beginning Fund Balance	3,900	2,480	28,725	19,790	4,104	18,208	10,282	13,164	100,653
Revenues	24,566	24,972	280,781	154,390	35,621	214,573	33,972	20,566	789,441
Expenditures and Transfers	(24,914)	(24,739)	(270,983)	(151,671)	(36,467)	(214,974)	(34,862)	(21,534)	(780,144)
2003-04 Ending Fund Balance	3,552	2,713	38,523	22,509	3,258	17,807	9,392	12,196	109,950
Est. Comp. Absences Liability Adj. [2]	(574)	(654)	-	683	(994)	-	149	-	(1,390)
Adjusted 2003-04 Ending Fund Balance	2,978	2,059	38,523	23,192	2,264	17,807	9,541	12,196	108,560
Adjusted EFB as a Percent of Revenues	12%	8%	14%	15%	6%	8%	28%	59%	14%

1: Chancellor's Office ending balance includes operating balances of $7.9 million, OCECS balance of $4.1 million, and Capital Support balance of $0.2 million.

2: Needed to complete transition to recording compensated absences liability based on employee's official station by the end of the biennium.

NOTE: Our annual financial audit is currently underway and may result in adjustments to the amounts presented above.

Institution Fund Balance Commitments Defined

Higher education institutions operate in a fiscal environment and on a business cycle that does not tightly correlate with the biennial budget process. As a result, institution management may make certain internal budgetary commitments against their fund balances. Among other reasons, these internal budgetary commitments are necessary in order to help maintain continuity of programs and provide funds for entrepreneurial activities and/or to provide incentives for certain desired outcomes. Examples of these budgetary commitments include, but are not limited to, commitments to maintain balances for certain departments, commitments to fund certain future actions, or contractual commitments to provide funding for program startup. Generally Accepted Accounting Principles do not call for such commitments to be recorded in the accounting records and, therefore, they do not impact fund balance.

In the event of an emergency these internal budgetary commitments could be funded from future resources (revenue increases or expenditure decreases), modified, or eliminated in order to meet the short-term need. Therefore, internal fund balance commitments support a balance within the policy range, but do not reduce the fund balance.

The Chancellor's Office requested each institution to provide detail of their internal budgetary commitments against their Education and General funds. Staff summarized the institution information in the schedule provided below.

Institution Commitments Against Fund Balance:

OREGON UNIVERSITY SYSTEM
Schedule of Institutional Commitments Against Fund Balances
Education and General Funds (including SWPS)
June 30, 2004

(amounts in thousands of dollars)

	EOU	OIT	OSU	PSU	SOU	UO	WOU	CO	Totals
Distance Education Expansion		$ 354							$ 354
Faculty, Adjunct			$ 1,719	$ 885			$ 92		2,696
Faculty, Bridge Funding			850						850
Instructional Course Development/Program Support			2,291	236	$ 402	$ 9,142			12,071
Student Services Support				480	102		31		613
Renovation and Remodeling of Classrooms/Offices				2,383			1,605		3,988
Engineering Expansion		506		1,000	74				1,580
Library/Equipment/Technology Acquisitions		140	10,216	400	219		877		11,852
Accreditation Needs & Special Studies			672				71		743
Departmental Research			1,044	750		8,665			10,459
Faculty Recruitment, Retention and Development			5,013	6,088					11,101
Research Infrastructure			3,079						3,079
Cost Sharing and Matching Requirements			822		280		98		1,200
Building Maintenance and Upgrades		51	4,854	2,943			1,360	$ 1,620	10,828
Institutional and Administrative Support Services			658	77	179		25		939
Future Contractual Obligations		210	5,099	2,480	52		2,008	40	9,889
Transition Costs & Fund Shifts to Campuses								3,626	3,626
One-Time and Recurring CO Expenses								2,687	2,687
									-
Enrollment Contingency/Emergency Reserves	$ 2,978	798	2,206	5,470	956		3,374	4,223	20,005
Total	$ 2,978	$ 2,059	$ 38,523	$ 23,192	$ 2,264	$ 17,807	$ 9,541	$ 12,196	$ 108,560

Budgeted Operations Fund Balances Policy Proposal

OUS institutions shall develop budgets that target an ending biennial budgeted operations fund balance of approximately 10 percent of annual budgeted operations revenues. For purposes of this policy, budgeted operations funds are defined as all funds included in Fund Type 11 (Education and General) in the Oregon University System accounting records. Budget operations fund balances will be monitored as part of the quarterly projections included in the Managerial Reports provided to the Board; and institution presidents shall advise the Board in the event projected or actual ending balances for the biennium either fall below 5 percent or rise above 15 percent of revenues. Included in the information provided by the presidents will be an explanation for the variance and a plan to rebalance the budgeted operations fund balances over time to approximately 10 percent of annual budgeted operations revenues.

-end-