



RESOLUTION NO. 2023-06

**A RESOLUTION OF THE BOARD OF TRUSTEES OF
WESTERN WASHINGTON UNIVERSITY**

BOARD POLICY ON OPERATING BUDGET RESERVE

WHEREAS, the Western Washington University Board of Trustees is vested with full authority to manage the assets and affairs of the University.

WHEREAS, the Board's powers and duties are granted by Washington State law, in particular the Revised Code of Washington Chapter 28B.10 and 28B.35 (RCW 28B.10 and 28B.35) and other statutory provisions.

WHEREAS, the Board engages in responsible institutional governance by the proper exercise of its fiduciary duties to the institution.

NOW, THEREFORE BE IT RESOLVED by the Board of Trustees of Western Washington University that the attached Operating Budget Reserve Policy is formally adopted.

PASSED AND APPROVED by the Board of Trustees of Western Washington University at its meeting on December 8, 2023.

ATTEST:

A handwritten signature in black ink, appearing to read "Faith Li Pettis", written over a horizontal line.

Faith Li Pettis, Chair

A handwritten signature in black ink, appearing to read "Chris Witherspoon", written over a horizontal line.

Chris Witherspoon, Vice Chair

WESTERN WASHINGTON UNIVERSITY

BOARD OF TRUSTEES

RESOLUTION NO 2023-06 OPERATING BUDGET RESERVE

This policy establishes budget reserve and designated balances in the local tuition operating fee account, a funding source for the University's annual operating budget. It also establishes budget reserve requirements for certain self-support units.

Definitions:

Budget reserve – Funding held in reserve for future or contingent use (such as economic uncertainties, cash flow shortages, and unexpected expenses and losses) rather than for current on-going operating needs.

Designated balances – Fund balances earmarked for specified purposes. The term *designated balances* is used to differentiate between GASB-defined fund balance classifications and other funds that are set aside for more specific categories such as capital improvements, maintenance, and equipment purchases.

Policy Statement

It is the policy of Western Washington University to maintain an operating budget reserve of ten percent of its annual operating budget, and designated balances as an essential component of responsible fiscal management. The intent of this policy is to ensure that the university has sufficient levels of reserves to:

1. Build reserves to limit the negative impact of extraordinary events and to sustain continuity for university operations during periods of economic uncertainty, and
2. Develop capacity for longer-term strategic initiatives (earmarked as designated balances).

Background

Establishing reserves is common practice in the higher education sector and maintaining adequate reserves is key to maintaining stable fiscal operations and timely delivery of educational programs.

Setting resources aside can help reduce potential disruptions stemming from a prolonged economic downturn or catastrophic event such as a natural disaster. Without adequate reserves the university could experience periods of cash flow strain which impedes long-term planning and pursuit of strategic initiatives.

Reserves accumulate when tuition revenues exceed annual operating expenses over time or by deposits from other resources. Reserves are intended to pay for one-time investments or unanticipated short-term costs. Drawing on reserves for current on-going operating expenses is not a long-term solution. Additional state funding, and fee increases or other ongoing revenue sources, are necessary to sustain core educational activities. Use of reserves should be accompanied by a plan and timeframe for replenishment.

Reserves and Designated Balances

Budget reserves and designated balances are established as follows:

- Operating Budget Reserve
- Designated Balances
- Auxiliary Services and Self-Support Unit Reserves

Operating Budget Reserve. An accumulation of unused contingency budget (a portion of the unrestricted local tuition operating fee fund that is budgeted annually to cover unexpected costs or unrealized revenues within the fiscal year) plus any actual net operating revenue above the budgeted amount for the fiscal year set aside for economic uncertainties. This reserve provides limited bridge capacity to cover fiscal gaps due to unforeseen economic events such as temporary enrollment decline, statewide recessions, natural disasters, and major infrastructure failure.

At a minimum, reserves shall be sufficient to cover operating expenses equal to 10% of base budget. The maximum amount may change based on operating conditions or requirements. At times, reserves may be used to respond to emergencies or urgent needs. Use of reserves below the minimum threshold must be approved by the Board of Trustees and accompanied by a plan to replenish within a specified timeframe.

Designated Balances. Operating budget reserves that exceed the minimum required balance as outlined in Appendix A may be designated (earmarked) and used for specific purposes such as strategic initiatives.

Auxiliary Services and Self-Support Unit Reserves. University support services include auxiliary service funds which operate as enterprise funds. In addition, certain other budgetary units are expected to be self-supporting. Maintaining an adequate budget reserve within these units is an essential component for providing sustainable university services while covering operational expenses, debt service, and future replacement of facilities and equipment. Maintaining a budget reserve is favorable when bond rating agencies evaluate debt capacity since it lowers the debt-to-equity ratio (a measurement of financial viability), which may contribute to higher bond ratings and lower borrowing costs. Such policies should be supported by long-term strategic planning.

Auxiliary services and self-support units which are required to maintain budget reserves are specified in Appendix B.

Reserves in specified auxiliary and self-support units will be set at a minimum of 10% of recurring expenditures, with the maximum threshold adjusted for unique operating requirements such as debt service, bond covenants, and other considerations specific to those operations.

Accountability and Transparency

The Office of Strategy, Management and Budget (SMB) shall establish procedures for administering Budget Reserves and designated balances following the framework shown in Appendix A, which includes criteria for allowable use of reserves. Given the dynamic environment, funding level targets for reserves and designated balances should be recalculated at least annually.

SMB will report annually to the university President, the Finance, Audit and Risk Management (FARM) Committee of the Board of Trustees, the President's Cabinet (executive leadership team), and relevant budget committees regarding any uses of reserves and designated balances.

Appendix A: WWU Framework for Operating Budget Reserves - Types, Sources and Uses
Appendix B: Auxiliary Services and Self-Support Units (subject to this policy)