SHORT-TERM STEPS FOR MANAGING ACADEMIC RESERVES
THE UNIVERSITY OF ALABAMA SYSTEM

OVERVIEW:

The System and Campus Financial Officers along with the Chairs of Finance and Strategic Planning have broadly discussed issues associated with financially managing academic reserves. To date, we have quantified the amount of reserves by category at each campus; identified issues associated with changing the handling of reserves; and proposed potential long-term solutions that could vary by institution. However, with the new fiscal year rapidly approaching, we need to take some short-term steps to address concerns about accumulated academic reserves and use of operating budgets as approved by the Board.

CONCERNS:

There are two immediate concerns for the September budget preparation and implementation of the budget on October 1. The first concern relates to academic financial reserves that have accumulated over multiple years and any funds remaining at year end when departments do not spend their entire budget. Currently, departments have the ability to access these reserves as needed for any legal expenditure. A short-term solution needs to be implemented to address the use of these accumulated reserves plus reserves generated at the end of fiscal year 2018 and forward. Any proposed solutions should not induce Colleges to spend all of their reserves but ensure that the reserves are budgeted and used in a strategic and prudent manner.

A second concern is the concept that the campuses may present a budget to the Board for approval based on expenditure categories to pay personnel (Compensation) and then the remainder to be used to operate the departments (collectively, Operating). Then after the fact, funds budget for personnel may be used for operational purposes and vice versa. A solution is needed for each campus that provides the most efficient approach to address the issue of funds being spent differently from the original intent.

PROPOSED SOLUTIONS:

Two steps will be implemented October 1, 2018 by the three campuses:

1. Any accumulated reserves to date and carryover computed upon closing the books for fiscal year 2018 will not be comingle in operating budgets and will be held separately. Commitment Ledgers ("Ledger") will be implemented by each campus. These Ledgers are a multi-year plan developed in conjunction with the Chief Financial Officers, Provost and Academic Deans to designate the use of reserves for strategic initiatives. As reserves may only be used for nonrecurring expenditures, the three campuses expect the Ledgers to be predominantly used for capital projects—some which the Board will approve in accordance with Board Rule 415 and some that will fall below the Board threshold. As the reserves for each College are not swept into one lump sum central reserve but accounted for by Academic entity, the Deans will know their funds are available for their strategic initiatives as long as they develop an appropriate plan for use. This structure will prevent a mass spending of funds and signal the importance of good stewardship. The Campus Financial Officers will provide a report of the use of reserves to the System Office twice a year (at the end of the second quarter and at fiscal yearend)
2. To address the concern that the campuses may spend their budgets differently than what is approved by the Board in September, each campus will implement a new procedure for departmental operating budgets. As time is of the essence and a short-term efficient approach is needed, departments will be allowed to move only 15% of their operating budget line for Compensation to the Operating budget line. This procedure will result in the departments building more realistic budgets in accordance with their annual needs and prevent material spending of budgets for other than the original intent. This approach is similar to the leeway granted by federal agencies that fund research.