# DSST Reserves Policy

## Proposals:

1. Revise the current Board Designated Operating Reserve to be three months of the current fiscal year’s budgeted operating expenses.
2. Rename the Emergency Reserve to Tabor Reserve.
3. Remove the current Strategic Initiatives Reserve and Investment Earnings Reserve.

## Detail:

Currently there are four different Board Designated reserve accounts: Emergency Reserve, Investment Earnings Reserve, Strategic Initiatives Reserve, and Operating Reserve. The Emergency Reserve is required by TABOR, and we will continue to reserve 3% of the current year’s expense budget. The Investment Earnings reserve holds 50% of our investment returns to fund strategic initiatives or COO reserve projects. The Strategic Initiatives reserve is the $400k we budget in the COO reserve each year. Finally, the Operating Reserve holds Mill Levy Override funds from 2013 that were unspent and designated to cover the costs of raises through TCP above a 3% standard raise pool cost.

The first policy we are proposing is to update our use of the Operating Reserve. At the end of FY 2017, the current operating reserves will be used to fund salaries in order to wind down the original designation of these reserves. We propose to simultaneously establish an Operating Reserve that DSST can use to support operations in the event of an unanticipated increase in expenses or shortfall in revenue. After conducting research and soliciting input from CSGF and Eide Bailly we believe three months of forward looking operating expenses is an appropriate balance between holding enough to protect against unexpected shocks while not over-restricting our assets. For FY18, the amount held in the reserve would be $15.83M, based on budgeted expenses (excluding CMO fees).

At the end of each fiscal year, the Board will designate the amount to be held in the Operating Reserve for the coming year. During the year, Operating Reserve funds will only be drawn down with approval from the board. In that event, DSST management will need to provide the board information on 1) the unanticipated increase in expenses or decrease in revenue that is driving the need, 2) the amount requested to be drawn from the reserve, and 3) the timeline for returning the funds into the reserve. No funds will be deposited into other unrestricted accounts until the operating reserve is fully funded.

The second policy we are proposing is to rename the Emergency Reserve the Tabor Reserve. The intent of these funds will be to hold the required 3% of operating expenses in a reserve to be used only in the case of a declared emergency. Renaming this reserve clarifies that these are funds designated to follow state law and is not an internally designated fund.

The final policy is to eliminate the Strategic Initiatives Reserve and Investment Earnings reserve. The strategic initiatives reserve holds funds to be used for projects approved through the COO reserve. However, because the COO reserve is a budgeted expense line this reserve is unnecessary. In practice, when COO reserve funds are requested the amount needed is simply transferred out of the COO reserve line and into the expense requested.

The Investment Earnings Reserve is designed to hold a portion of investment returns to fund strategic initiatives or COO reserve projects. As stated above, a reserve for COO projects is unnecessary. We also don’t believe that a reserve for specifically for strategic initiatives is necessary, as the cost of such an initiative would be evaluated in light of the entire budget and balance sheet. Removing this reserve will simplify the balance sheet with no negative impact.

## Future Consideration:

As of December, 2016, the DSST Foundation is holding all our private donations and will continue to do so moving forward. Over time, we will draw down on our DSST, Inc assets while the Foundation balance sheet continues to grow. The result is that eventually we will reach a point where DSST, Inc assets alone cannot cover the 3 months of expenses required in the operating reserve. Our recommendation is to include the required funds to support the operating reserve in the annual requested grant from the Foundation.