

University Foundation at Sacramento State (UFSS)

Reserve, Liquidity & Long-Term Investment Policy

I. Purpose

This policy establishes a structured financial framework to ensure that UFSS:

- Protects core Advancement and Foundation operations,
- Manages revenue timing and market volatility,
- Preserves institutional flexibility,
- Builds sustainable long-term capital capacity, and
- Supports Sacramento State's strategic priorities in a disciplined manner.

This framework separates liquidity management, operational protection, and long-term investment strategy.

II. Revenue Alignment Framework

UFSS operates with three primary revenue streams:

1 Endowment Management Fee (1.25%)

Supports core Advancement and Foundation operations.

2 Gift Fee (5%)

Supports operational flexibility and campaign readiness.

3 Current Use Investment Earnings (~4%)

Builds Strategic and Quasi-Endowment reserves.

Revenue Alignment Summary

| Revenue Source | Primary Purpose |
|----------------------|---|
| Management Fee | Core operations |
| Gift Fee | Operational flexibility & campaign capacity |
| Current Use Earnings | Strategic & long-term reserves |

Operating revenues support operations.
Investment earnings build institutional strength.

III. Operating Budget Sustainability & Growth

Purpose

To ensure UFSS maintains a sustainable balance between:

- Funding Advancement operations, and
 - Building reserves and long-term capital capacity.
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Target Operating Expense Ratio

UFSS shall target operating expenses within:

60%–75% of total unrestricted annual revenue

This range ensures:

- Adequate investment in Advancement capacity, and
 - A consistent operating margin for reserve growth.
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Transitional Approach

Recognizing the implementation of a new revenue model:

- UFSS may operate below this range during the initial transition period.
 - This allows time to:
 - Validate revenue streams,
 - Strengthen reserves, and
 - Scale operations responsibly.
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Scaling Principles

1. **Recurring Revenue Requirement**
Permanent operating expenses shall be funded only from stable or demonstrated recurring revenue.
 2. **Return on Investment**
New operating investments should include measurable outcomes and expected return.
 3. **Controlled Growth**
UFSS shall scale toward the target range gradually and intentionally.
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Use of Volatile Revenue

Variable or non-recurring revenue (e.g., investment gains, one-time surpluses):

- Shall not fund permanent operating expenses,
 - Shall be directed to reserves, and
 - May support temporary or one-time initiatives.
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Board Oversight

- The Finance Committee shall review the operating ratio annually.
 - Any budget exceeding the target range requires Board review.
 - Management shall report revenue composition and sustainability.
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Rationale

This approach:

- ✓ Prevents over-expansion
- ✓ Maintains flexibility

- ✓ Supports disciplined growth
 - ✓ Aligns with higher education best practice
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IV. Liquidity & Reserve Structure

UFSS maintains four financial layers:

1. Operating Reserve
2. Strategic Reserve
3. Spending Stabilization Reserve
4. Quasi-Endowment

Each has a defined purpose and investment approach.

V. Operating Reserve

(Operational Continuity Protection)

Purpose

To protect UFSS operations during disruption.

Minimum Level

At least **six (6) months of the UFSS operating budget.**

How It Will Be Used

- Temporary revenue decline
- Extraordinary expense
- Financial disruption

How It Will Be Invested

- 100% short-term fixed income

Risk Profile

Low. Stability over return.

VI. Strategic Reserve

(Institutional Readiness & Capital Enablement)

Purpose

To fund initiatives that prepare the University for capital or strategic commitments.

Uses

Capital Enablement

- Feasibility studies
- Architectural design
- Engineering and site work
- Pre-construction planning

Bridge & Matching

- Bridge financing
- Grant matching
- Campaign timing gaps

Advancement Capacity

- Campaign readiness
- Technology modernization
- Strategic staffing

Non-Uses

- Routine construction
- Permanent capital commitments
- Recurring deficits

Target

~40% of excess reserves (35–45%)

Investment

A “40/60” (40% growth / 60% capital preservation) portfolio as allocated between:

- 34% Equities (allowable range 26%-41%)
- 48% FixedIncome (allowable range 36%-60%)
- 16% Alternatives (allowable range 0%-24%)

Risk

Low to moderate.

VII. Spending Stabilization Reserve

(Volatility Buffer)

Purpose

To smooth fluctuations in:

- Endowment payout
- Gift fee revenue

Target

.25% of endowment market value

Uses

- Support underwater endowments
- Offset significant revenue declines

Investment

- 100% short-term fixed income

Risk

Low. Stability over return.

VIII. Quasi-Endowment

(Long-Term Capital Engine)

Purpose

To provide sustainable capital support.

Threshold

No payout until **\$2,500,000 corpus**

Spending Rate

4% annually (aligned with endowment policy)

Uses

- Capital renewal
- Infrastructure
- Strategic initiatives

Principal

Exceptional use only with Board approval.

Investment

A “70/30” (70% growth / 30% capital preservation) portfolio as allocated between:

- 62% Equities (allowable range 47%-78%)
- 21% Fixed Income (allowable range 23%-38%)
- 15% Alternatives (allowable range 0%-24%)

Risk

Moderate, long-term growth.

IX. In-Year Cash Management

Excess cash above liquidity minimums may be invested during the year.

These funds remain **undesignated** until year-end.

X. Annual Surplus Allocation

After meeting liquidity minimums:

- Surplus retained only as needed for working capital and operating reserve
- Remaining funds allocated to:
 - Strategic Reserve
 - Quasi-Endowment

(No fixed carryforward percentage required.)

XI. Capital Funding Hierarchy

1. Donor-restricted gifts
 2. Quasi payout (4%)
 3. Strategic Reserve (enablement only)
 4. Quasi principal (exceptional only)
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XII. Governance

| Body | Role |
|------------------------------|----------------------------|
| Finance Committee | Liquidity & reserve review |
| Finance/Investment Committee | Asset oversight |
| Board | Policy approval |

XIII. Annual Review

Board reviews:

- Liquidity levels
 - Operating ratio
 - Reserve balances
 - Quasi growth
 - Capital commitments
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Strategic Summary

This policy:

- ✓ Aligns revenue with purpose
- ✓ Protects operations
- ✓ Enables flexibility
- ✓ Manages volatility
- ✓ Builds long-term capital strength
- ✓ Ensures disciplined growth