

Best Practices in Reserve Balance Management for International Education Offices

A white paper prepared by members of HEIBO: Higher Education International Business Officers.



Abstract

Reserve balances are crucial assets for international education offices, providing a financial safety net that ensures stability and flexibility amidst uncertainties. This white paper provides an in-depth examination of effective strategies for building, managing, and advocating for designated reserve balances within these offices. It presents a thorough analysis of best practices and strategic approaches, offering actionable insights to navigate financial challenges and bolster operational stability. By emphasizing prudent reserve management and providing concrete talking points, the paper aims to equip international education professionals with the tools needed to secure institutional support and achieve sustainable financial health over the long term.

Executive Summary

Reserve balances are vital assets for international education offices, providing financial stability and operational continuity in an unpredictable landscape. Recognizing that there is no "one size fits all" approach, this white paper explores effective strategies for building, managing, and advocating for these designated reserves. It emphasizes best practices that empower institutions to navigate financial challenges while securing necessary institutional support.

The paper begins with a comprehensive overview of reserve funds, emphasizing their role in safeguarding against unforeseen expenses and revenue shortfalls. It highlights the complexities of funding sources unique to international education offices, including self-supporting, centrally funded, or a hybrid of both. Key terms related to reserve management are defined (see appendix) to establish a common vocabulary, ensuring clarity among stakeholders.

A key challenge for international education offices is determining and maintaining an adequate reserve balance, which varies by funding model—centrally funded offices may not need any reserves while self-supporting units may target two years of operating costs plus any unfunded liabilities for operations abroad. This paper examines the legal and policy considerations influencing reserve management and political factors affecting the acceptance of reserves for future uncertainties. By engaging stakeholders in informed discussions and transparent decision-making, offices can optimize their reserve strategies.

The financial impact of the global pandemic underscored institutions' reliance on federal and state support. While this assistance provided essential relief, expecting such extensive backing for future challenges in international education is unrealistic; therefore, institutions must prioritize the development of robust reserve management strategies to ensure financial resilience and stability in the face of unforeseen circumstances.

The paper identifies essential considerations for effective reserve balance management, including the importance of structured decision-making, stakeholder engagement, clear communication with institutional leadership, and flexibility in adapting strategies to changing circumstances. Various methods for building reserves, such as implementing new fees, leveraging existing surpluses, and fostering a supportive university culture, are also examined.

Regular reviews of reserve management strategies are critical for ensuring their effectiveness and alignment with institutional objectives. The paper outlines best practices for conducting these reviews, emphasizing the need for ongoing assessment of financial performance and stakeholder engagement.

In conclusion, effective reserve balance management is crucial for the sustainability of international education offices. By adopting best practices such as setting clear goals, fostering collaboration, and maintaining flexibility, these offices can enhance their financial resilience and continue to promote global education initiatives. The strategies outlined in this paper equip international education professionals with the tools necessary to secure their institutions' financial health and operational stability in the long term.

Introduction

Reserve funds are essential for ensuring financial stability and operational continuity within universities, each with its own unique funding model and financial landscape. For international education offices operating within universities, the management of reserves requires a nuanced approach that considers the intricacies of their funding sources, which may include tuition and fees, research grants, endowments, and government subsidies. This paper outlines essential strategies and guidelines to assist international education offices, with the goal to foster stability, efficiency, and strategic resource allocation amidst the dynamic financial environments inherent in higher education institutions.

Prior to 2004, many universities had been reluctant to share their financial models or philosophies regarding reserve funds. In 2004, senior international officers (SIOs), study abroad directors, financial managers, and other university representatives from Big Ten institutions gathered to discuss general best practices. Reserve balances became a topic of discussion, revealing that some schools had none while others had anywhere from \$200K to \$1M. There was no consensus on the ideal amount; however, many schools decided \$500K was the magic number. One size does not fit all universities, and this paper will explain the many factors and considerations when deciding the optimal amount needed in a reserve account.

Note: See Appendix: A2 for essential terms and concepts pertinent to understanding reserve balance management practice.

1. Challenges and Considerations when Determining and Maintaining an Adequate Reserve Balance

Navigating the terrain of reserve balance management within international education offices is multifaceted, encompassing not only financial considerations but also legal and policy issues and factors unique to each institution.

1.1 Legal and Policy Considerations

International education offices must operate within the framework of laws, policies, and guidelines established by regulatory bodies and institutional governance structures. These may include restrictions on the accumulation of surplus funds, guidelines for investment practices, and requirements for reporting and transparency. Compliance with such regulations shapes the ability of international education offices to build and maintain reserve balances.

1.2 Political Concerns

Political considerations can significantly influence discussions and decision-making processes within international education offices. Geopolitical tensions, changes in government policies, and shifts in diplomatic relations may impact funding sources, student mobility initiatives, and collaborative partnerships with institutions abroad. Anticipating and addressing political

concerns is essential for navigating uncertainties and fostering resilience in reserve balance management.

2. Strategies for Effective Reserve Balance Management

Every institution is unique, and there is no singular pathway to determining whether a reserve balance management strategy is needed for your institution or what the appropriate amount of that reserve fund might be. Effective reserve balance management for international education offices requires a variety of strategies and steps, including: assessment of decision-making processes, flexibility in adjusting approaches, methods for building reserves, and insurance coverage for potential expenses.

2.1 About Reserve Funds

Reserve funds serve multiple purposes, including covering unexpected expenses, funding strategic investments, and managing income and expenses for strategic activities outside the normal operating budget. When considering reserve funds, it's important to keep the following in mind:

- **Purpose:** Reserve funds should address temporary issues or events, not structural financial problems.
- **Reporting:** All income and expenses associated with reserve funds contribute to the university's total financial reports.
- **Spending Guidelines:** Universities often establish spending guidelines for reserve funds to ensure proper stewardship and transparent financial activity.

2.2 Decision-Making Process

A structured decision-making process is essential for determining reserve balance management strategies within international education offices. This may involve assessing financial needs, evaluating risk factors, considering legal and policy implications, and soliciting input from relevant stakeholders. While it's impossible to capture every contingency in your plan, it's important to include as many considerations as possible in your decision. Additionally, a Reserve Calculator (see Appendix: A1) outlining contingency parameters can help facilitate transparency, accountability, and informed decision-making.

Some fundamental questions that are essential to the reserve balance management decision-making process include:

Which financial needs may arise in the future? Potential uses of reserves may include addressing student refund appeals, mitigating the financial impact of reduced student mobility due to internal or external factors, and hedging against foreign exchange fluctuations. They may also be used to cover various operational expenses, ranging from maintaining university spaces and personnel to supporting offices abroad and facilitating international programs. In some

cases academic continuity may also need to be supported (e.g., increased costs associated with pivoting to online learning if student mobility is impacted).

Is the institution public or private? Publicly funded institutions may be subject to state legislation regarding reserve balance management. Institutions may have internal financial policies governing when and under what conditions funds can be retained by units and/or carried across fiscal years.

Is the unit primarily self-funded, primarily centrally funded, or funded through a mix of sources?

While self-funded units may have more flexibility with how they manage their financial inflows and outflows—including what they do with any associated margin—they may also be subject to more volatility if revenue sources are temporarily eliminated or diminished. Alternatively, centrally funded units may not have the flexibility to increase revenue sources and/or retain funds across fiscal years.

How large is the scope of the unit? Considerations include:

- What is the staff size of the unit?
- How does the institution value staff retention?
- Are there employment contracts, union collective bargaining agreements, or termination policies that need to be considered?
- What is the total compensation budget of the unit?
- Does the institution have any overseas employees and what are the international employment considerations for those employees/contractors?
- What international facilities are the unit/institution responsible for and what are the associated annual fixed expenses?
- How many students/faculty/staff does the unit serve (e.g., inbound degree-seeking, outbound, and exchange students; faculty/staff program leaders; etc.)?

How closely is the unit linked to the strategic priorities (and therefore financial support) of the institution? It is important to assess the level to which an institution's leadership, mission, and strategies support international initiatives. This can be a difficult item to quantify, but it is crucial when determining reserve balance needs. If institutional leadership values your contribution to the university, it stands to reason that your department will be less likely to face a sweeping budget cut, or your unit may be more likely to receive financial support in emergency situations (even above and beyond any reserve funds).

What are current levels of risk? Things to consider include the risk tolerance profile of your institution, the state of the U.S. economy (which might impact both inbound and outbound mobility), and global or regional situations (e.g., political conflicts, pandemics/epidemics, etc.) that might impact your institution's international activities.

2.3 Flexibility in Adjusting Approaches

Flexibility is key in responding to changes in university policies, funding dynamics, and external factors that may impact reserve balance management strategies. International education offices should be prepared to adapt their approaches in a timely manner—reassessing reserve targets,

reallocating resources, and revising contingency plans as needed to maintain financial resilience.

To this end, we suggest utilizing a rudimentary formula when calculating your reserve balance requirement, with clearly identified variables so when situations and factors change, you are able to recalculate with minimal effort.

2.4 Methods for Building Reserves

Once an international office has determined the appropriate reserve fund amount and associated management strategy, building reserves within international education offices can be achieved through various methods, including: generating revenue through margin enhancement initiatives, leveraging existing surpluses or savings, implementing new fees or surcharges, or changing university mindset with respect to your reserve. Each method presents unique opportunities and challenges, requiring careful evaluation of their compatibility with institutional goals, fiscal policies, and financial sustainability objectives.

Margin enhancement initiatives: How long has it been since you analyzed your unit's budget? Review your expenses, and see if there are areas in which you can better control costs, or eliminate them for a period of time, to allow your reserve to grow.

Leverage existing surpluses or savings: Is the institution comfortable putting a larger single lump sum into a reserve fund (impacting one fiscal year) or would they prefer to build the reserve fund through smaller annual contributions (spreading the impact across various fiscal years)? What percentage of margin might be adequate to successfully build a reserve fund within an appropriate time frame (1-3 years)?

New fees or surcharges: Fees often need to be approved by the institution's Board of Directors/Trustees, so this may not always be an easy option, and may require advanced planning. Additional or exorbitant fees may be seen as a financial barrier to accessibility—if too many fees are assessed, this may discourage study abroad participation or lead to a decrease in incoming international populations. Be thoughtful in this approach. Note that it is also good practice to evaluate your fees on an annual basis and pace increases with overall university increases. Keeping rates flat for years, then suddenly implementing a large increase to “catch up,” may result in sticker shock and pushback.

Change university mindset with respect to your reserves: If you end a fiscal year with a surplus, will the university allow you to keep it and put it toward your reserve balance? Will the university allow you to strategically budget for a surplus in upcoming fiscal years, with the intent on keeping it to build your reserve? If you have a staff vacancy resulting in budget savings, can you negotiate to keep those funds for your reserve? If the answer is no, consider which conversations need to happen for these strategies to be approved.

2.5 Role of Insurance Coverage

Exploring insurance coverage options is essential for mitigating financial risks associated with unforeseen events or emergencies within international education offices. Assessing insurance

policies for coverage of potential expenses, such as property damage, liability claims, or business interruptions, can provide additional financial protection and enhance the institution's resilience against unexpected losses. The reserve balance management strategy should take into consideration anticipated emergency expenses that are not covered by existing insurance policies. Reserve funds can act as self insurance to cover these exclusions. Common insurance exclusions include acts of war/acts of terrorism, acts of God, pandemics/epidemics, mandated quarantines, and more.

3. Reviewing and Assessing Reserve Balance Management Strategies

Instituting regular reviews and assessments is crucial to ensuring that reserve balance management strategies remain effective and aligned with the evolving needs of international education offices. This section outlines best practices for conducting these reviews, including recommended frequency, evaluation criteria, and actions to take upon achieving reserve balance goals.

3.1 Frequency of Reviews

Annual reviews are crucial for assessing the performance and alignment of reserve balance management strategies with institutional objectives and support. These reviews ensure that strategies remain effective and relevant in an evolving environment. In addition to the regular annual review, it is advisable to conduct supplementary assessments in response to significant changes, such as shifts in financial conditions, updates to regulatory requirements, alterations in employment contracts, and modifications in institutional priorities. Major changes in the scope, funding model, staffing levels, or the population served by the international education office also necessitate a thorough reassessment and potential adaptation of the reserve balance management strategy.

3.2 Evaluation Criteria

During reviews, assess progress toward reserve balance goals by comparing actual reserves to target levels. Evaluate the factors influencing goal achievement, such as enrollment management, financial performance, external conditions, and internal processes. Develop a strategy and establish a realistic timeframe for achieving the desired reserve balances, taking into account current progress and anticipated changes. Additionally, securing and maintaining buy-in from senior institutional leaders is essential for ongoing support and validation of reserve balances within the unit. This endorsement ensures that reserve management strategies align with broader institutional priorities and help sustain the necessary resources for financial stability and operational flexibility.

3.3 Actions When Goals are Reached

When reserve balance goals are achieved, develop strategies to optimize the utilization of surplus funds and prevent future accumulation of excessive reserves. Options for utilizing surplus funds may include establishing scholarships, creating emergency funds for students,

subsidizing faculty-led programs, or funding one-time initiatives such as program development and institutional advocacy. Ensure transparency and accountability in decision-making processes, and communicate the rationale for actions taken to relevant stakeholders. Additionally, verify compliance with any institutional or state policies regarding the use of student fees to ensure that all actions align with regulatory and policy requirements.

4. Stakeholder Collaboration and Coordination

Collaboration and coordination among stakeholders—including university leadership, academic departments, administrative units, and financial authorities—are pivotal for promoting financial stability and resilience within international education offices. Establishing communication channels, conducting regular financial reviews, and fostering transparency in financial decision-making creates a culture of accountability and facilitates collective action in addressing financial challenges.

4.1 Identifying Stakeholders

Key stakeholders in the reserve balance management strategy might include: unit directors/deans, risk management, human resources, general counsel, financial leadership, board of directors/trustees (e.g., if additional fees are to be assessed); or the provost (e.g., if academic continuity is a consideration). These individuals have a comprehensive view of the institution and may be able to reallocate resources as needed—for example, utilizing additional tuition dollars at institutions that implement a study abroad fee-in-lieu of tuition model during periods of reduced mobility. Key stakeholders should be identified and updated every time the reserve fund strategy is reviewed or amended.

4.2 Communicating with Leadership

Open and transparent communication with institutional leadership is critical for gaining support and alignment on reserve balance management strategies. Regular updates, presentations, and transparent discussions with university executives can foster understanding of financial challenges, solicit feedback on proposed strategies, and garner buy-in for decision-making processes.

When assessing how best to communicate with leadership, begin by considering: *What is the institutional culture? How supportive is the administration of international education? How do they demonstrate that support? Is it unit by unit or overall?* Aligning reserve balance management strategies with institutional priorities and culture can facilitate informed decision-making and foster consensus.

While it's impossible to capture every contingency in your plan, it's important to present your thoughts in a logical and concise manner to senior university management, and justify your thought process as to how you arrived at your target reserve number. It will be easier for senior management to assess and respond to your request for an adequate fund balance if you are able to clearly present your case.

Know your audience. Often less is more. When presenting to senior-level university officials, you should be concise, yet informative, as their time and scope is limited. You need to make sure you fully explain, but don't overwhelm with too many details.

Conclusion

Effective management of reserve fund strategies and active involvement of key stakeholders in decision-making is essential for the financial stability and operational success of international education offices. By remaining flexible and proactive, international education offices can confidently navigate financial challenges, optimize their resources, and continue their vital work of promoting global education and cultural exchange.

Appendix

A1: Reserve Calculator

HEIBO has developed an interactive Reserve Calculator to assist in determining an appropriate reserve balance for your institution. The tool allows for customization of a formula based on the unit's budget, human resources retention policies, and risk tolerance. In addition, HEIBO has also made available a more detailed reserve calculator developed by one of our authoring institutions.

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Reserves Calculator

This calculator is intended as an informational tool to help guide decision-making. Determination of specific reserve levels may vary according to your unique institutional requirements, policies, regulations, etc. Please consult with leadership as necessary.

*Appendix

Institutional Parameters	
Type	Public
Funding	Hybrid
Unit	Study Abroad
Staff Count	8
Personnel Cost (Annual)	\$800,000
Essential Operating Budget	\$350,000
Discretionary Operating Budget	\$78,000
Personnel Reserves Target	6
Essential Reserves Target	6
% Centrally Funded	25%
% Self Funded	75%
Existing Reserves	\$125,000
Suggested Reserves	\$ 682,813
Difference	\$ (557,813)

(# of FTEs)
(including fringe benefits)
(per Annum)
(per Annum)
(in # of months)
(in # of months)

Risk Level Assumptions	
Institutional	Medium / High
US Economy	High
World	Medium / High
Average Risk Multiplier	1.6

Score
Score
Score

Personnel Cost (Monthly)	\$66,667
Essential Operating Budget	\$29,167
Discretionary Operating Budget	\$6,500
Total Monthly Budget	\$102,333
Total Annual Budget	\$1,228,000

(a)
(d)
(d)
(d)

Additional Parameters	
Foreign Office Expenses	
Miscellaneous Expenses	

(d)
(d)

Download Reserve Calculator from HEIBO website.

A2. Defining Key Terms

In the realm of reserve balance management within international education offices, clarity in terminology is paramount. Below are essential terms and concepts pertinent to understanding reserve balance management practice. By establishing a common vocabulary, stakeholders can effectively navigate discussions and decision-making processes surrounding reserve balance management strategies.

Reserves or Designated Reserves: Reserves refer to funds set aside by international education offices to provide financial stability, address contingencies, and support operational needs. These funds serve as a buffer against unforeseen expenses, revenue shortfalls, and economic uncertainties, enabling the institution to maintain continuity in its educational and administrative functions. According to [insidehighered.com](https://www.insidehighered.com), reserves (also known as contingency funds, fund

balance, operating reserves, and strategic investment reserves) are what they sound like: monies saved and held for certain financial occurrences.

Contingency Funds: Contingency funds are reserves earmarked for unforeseen emergencies or events that may disrupt normal operations within international education offices. These funds provide flexibility and agility in responding to unexpected challenges, such as natural disasters, geopolitical disruptions, or sudden shifts in funding priorities.

Self-Supporting or Self-Sustaining: A self-supporting and self-sustaining program or initiative within international education offices generates sufficient revenue to cover its operating expenses independently, without relying on external subsidies or funding. Such programs create sustainable revenue streams through activities like conferences, professional development courses, or international student programs, ensuring their long-term viability and contributing to the financial sustainability of the institution's mission. This is typically done by adding an administrative fee to program costs that will help cover the operating costs of the office. Because fees are highly scrutinized at institutions, it may be helpful to be able to articulate what that fee covers. For example, one institution calls their administrative fee an “APAAC,” which stands for Advising, Placement, Academic, & Administrative Cost.

State or Centrally Supported: State or central support refers to financial assistance provided to international education offices by government entities at the state or provincial level. This funding is normally allocated to individual units and departments to assist with their operations. This support may include direct funding, grants, subsidies, or allocations intended to supplement the institution's operating budget and support its educational and research activities.

Hybrid Model: International education offices can be funded by more than one model, and this is often referred to as a Hybrid model. The office may receive some funding from central administration but also receive revenue from student fees to assist with operations.

Operation & Maintenance (O&M): Operation and maintenance (O&M) expenses encompass the costs associated with the day-to-day operations and upkeep of facilities, infrastructure, and equipment within international education offices. These expenses include utilities, repairs, maintenance, custodial services, and other essential services required to ensure the functionality and safety of campus facilities.

Responsibility Center Management (RCM) or Decentralized University Budget Models: Responsibility Center Management (RCM) or decentralized university budget models are financial management frameworks that delegate budgetary authority and decision-making responsibilities to individual academic or administrative units. Under these models, each unit operates as a "responsibility center" with its own budget, revenue sources, and expenditure control, fostering autonomy and accountability at the departmental or divisional level.

Central Administrative Management (CAM) or Centralized University Budget Models: Central Administrative Management (CAM) or centralized university budget models centralize budgetary decision-making and financial oversight. Under these models, the central administration retains control over budget allocation, resource distribution, and strategic financial planning, providing a unified framework for resource management and institutional governance.

Program Fees, Fee in Lieu of Tuition, or Home School Tuition: Program fees, fee in lieu of tuition, or home school tuition refers to charges levied on students by international education offices to cover specific services, facilities, or educational resources not included in the base tuition fee. These fees may vary depending on the program of study, course requirements, or extracurricular activities, and contribute to the overall revenue stream of the institution.

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The Higher Education International Business Officers (HEIBO) is a professional association that supports higher education international business professionals who are passionate about quality education. The members of HEIBO are committed to developing and advancing the knowledge, skills, best practices, and network of professionals who provide financial, operational, and business leadership for global higher education. Learn more at HEIBO's website: heibo.org