NECA RESERVE FUND POLICY: ENSURING LONG-TERM STABILITY

Modernizing the Reserve Fund is Crucial

NECA is committed to ensuring financial stability and long-term sustainability by revising its Reserve Fund policy. The current policy, unchanged since 2004, no longer meets the financial realities of today's operating environment. NECA aims to strengthen its fiscal position by instituting updated financial regulations and best practices, eliminating deficit spending, and securing sufficient reserves to weather crises or unexpected events.

This policy revision is designed to ensure NECA's Reserve Fund remains healthy, maintaining reserves between six months and two years of operating expenses.

Key Points of the Reserve Fund Proposal

1

Revised Policy on Reserve Spending

- Current Policy: The Executive Committee (EC) may utilize up to 7% of the Reserve Fund for annual operations.
- Proposed Policy: The EC will no longer be permitted to draw from the Reserve Fund for annual operations, ensuring long-term financial sustainability.

2

New Guidelines for Reserve Utilization

- Up to 5% of the Reserve Fund may be approved by the Executive Committee for use in times of crisis, recession, or to cover unforeseen legal costs or revenue declines.
- Any additional spending from the Reserve Fund, or emergency withdrawals exceeding 5%, will require Board of Governors (BOG) approval.

3

Reserve Fund Maintenance

- The Reserve Fund must maintain a balance between 6 months and 2 years of operating expenses, based on a 5-year average.
- The EC will review the policy annually and propose adjustments as needed to ensure the fund's health.

Why the Changes Are Necessary

Stop Deficit Spending: For decades, NECA has relied on reserve funds to balance the budget, which is no longer sustainable. By eliminating the practice of using reserves for annual operations, this proposal safeguards NECA's long-term financial health.

Prepare for Unforeseen Challenges: The new policy enables NECA to access reserve funds only in times of crisis, such as during recessions or significant legal costs. This ensures the Reserve Fund serves its true purpose: to provide financial security during unpredictable circumstances.

Ensure Long-Term Financial Stability: With the cost of operations rising due to inflation and increased service demands, maintaining reserves equivalent to 6 months to 2 years of operating expenses is essential for future growth and stability.

Why Your Support Matters

By modernizing the Reserve Fund policy, NECA ensures it is financially equipped to face the challenges ahead while maintaining strong fiscal discipline. This proposal is critical to stopping deficit spending, securing reserves for emergencies, and promoting long-term growth. We urge the Board of Governors to approve this essential update to ensure NECA's continued success.

What Happens if Reserves Exceed Two Years of Operating Expenses?

While unlikely in the short term, if the Reserve Fund balance exceeds two years of operating expenses, the policy will be reviewed, and necessary adjustments will be made to align with NECA's financial goals. By keeping the adjustment to dues very modest and considering rising operating costs and inflation, it is expected that the fund will not exceed this threshold for decades.

Ordinary Proposal #1 – Amend Board of Governors Policy #1 re Reserve Finance Policy (Contingent upon Approval of Bylaw Amendment re Dues Amounts)

(Submitted by the NECA Executive Committee)

WHEREAS, the current NECA Board of Governors Policy on Reserve Finance has not been revised since 2004; and,

WHEREAS, spending from the reserves for annual operations has proved to be unsustainable for the long-term; and,

WHEREAS, the Policy needs to be revised to allow for financial stability to meet the current and projected future needs of the Association.

THEREFORE, be it resolved that the NECA Board of Governors Policy on Reserve Finance be revised as follows.

Reserve Finance Policy

NECA shall establish and maintain a financial reserve for the purpose of responding to unpredictable problems and financial crises (Reserve Fund). Reserves are an important mechanism to ensure the Association's financial health and stability, and to mitigate financial risks.

It shall be a goal to maintain the Reserve Fund at a balance greater than six months operating expenses and less than two years operating expenses. For the purpose of these calculations, operating expenses should be averaged over a five-year period.

Upon prior approval of the Executive Committee, the Reserve Fund may be used for:

- Operating needs in times of crisis, marked recessionary times, and as protection against significant unexpected revenue declines.
- Unforeseen legal costs or settlements.

All other withdrawals, and any withdrawals (for reasons listed above) which exceed 5% of the value of the Reserve Fund at the prior fiscal year end, require prior authorization by the Board of Governors.

The Reserve Fund shall be managed by recognized professional investment managers in a formal, diversified plan approved by the Executive Committee and may be invested in traditional vehicles such as stocks, bonds, and cash.

This Policy will be reviewed annually, by the Executive Committee, or sooner if warranted by internal or external events or changes. Proposed changes to the Policy will be submitted to the Board of Governors.

(Adopted Oct. 16, 2004)

Comment from NECA National Office:

These proposals are recommended **FOR** adoption for the reasons stated above.

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