

arXiv Reserve Funds –Proposal for Discussion
proposal for review by MAB & SAB – please do not circulate

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arXiv maintains an operating reserve to support one-time program enhancement costs, unforeseen expenses and ensure a sound business model.¹ There are some best practices for structuring the reserve funds that we can consider as a model for arXiv. Based on my discussion with the director of CUL Finance & Budget and a review of business models of similar initiatives, I found the following two common categories and recommend that we develop a reserve policy for arXiv accordingly: Operating Funds & Development Funds.

1. Operating Funds

Operating Funds can be used to support business closing, and in the case of arXiv, the service's transition to another institution. These funds are also seen as a safety net when there is a revenue short-fall (e.g., if member' financial support is not sufficient to cover expenses). These funds can also be utilized in the case of an emergency (e.g., needing a new server due to malfunction).

One of arXiv's operating principles relates to reserve funds:

6.6 After a successful initial membership offering, if members' financial support falls below the level Cornell deems adequate to maintain arXiv at an acceptable level of quality, reserve funds will be used for two years to allow time for Cornell to secure sufficient funding support. Failure to do so may result in the development of an exit strategy, including the transition of arXiv to another institution.²

During CY10-CY12, arXiv's total operational budget was in the \$312,000-\$509,000 range. Projections for CY13-CY17, without including the indirect expenses, are in the \$550,000-\$653,000 range. Ideally, we want to build an operating reserve fund of \$300,000 by the end of CY2017 to enable Cornell to develop an alternative plan in case the revenues are not sufficient to cover expenses. An operating reserve fund of \$300,000 would allow arXiv to operate on a reduced budget for one year in the case that Cornell decides that arXiv must transition to another institution.³

¹ Currently, arXiv has a contingency fund of approximately \$106,000 accumulated during the last two years due to unexpected staff vacancies and other savings, such as transition to virtual servers.

² arXiv Principles available at:
<https://confluence.cornell.edu/download/attachments/127116484/arXivPrinciplesMarch12.pdf>

³ arXiv operating principle 6.6 will need to be revised to reflect this strategy.

2. Development Funds

Development Funds can be used for one-time special projects. Working with SAB and MAB, the arXiv team can develop funding proposals for consideration.

The 2013-2017 projections are taken from the 5-year business plan on the arXiv Sustainability website.

Table 1: Operating Projection

Description	2010	2011	2012	2013	2014	2015	2016	2017
Total Operating Costs (Direct Costs)	\$312,000	\$435,000	\$509,000	\$611,504	\$550,275	\$569,248	\$681,080	\$653,170
Annual Reserve Funds	\$70,985	\$35,611*	\$2,671	\$113,495	\$174,725	\$155,750	\$93,920	\$73,330
Cumulative Reserve Funds **	\$70,985	\$106,596	\$109,267					

* In 2012, \$19,440 was taken from the existing surplus account to adjust JISC as it overpaid during 2011. The original surplus amount for 2011 was \$55,051.

**Cumulative Operating Reserve Funds balance does not factor in the potential expenditures that will be charged against this account in support of unforeseen expenses.

Proposal for CY2013

We expect to enter CY2014 with an overall reserve fund total of \$210,000 - \$260,000, dependent on membership fees that will be received during CY13:

- 1) We propose to use approximately \$75,000 for hiring a part-time interim Scientific Director (ideally 0.5 FTE), which is a sorely missing component of the current team structure.
- 2) During the 5-year business planning process, we have underestimated the level of IT work and would like to adjust our CY14 projection of 1.5 FTE to at least 2 FTE (preferably to 2.5 FTE) We expect this expense to be in the \$45,000-\$95,000 range (add 0.5 FTE-1.0 FTE programmer).
- 3) We recommend setting aside a minimum of \$100,000 as a starting point for *Operating Funds*, with a goal of reaching a total of \$300,000 by the end of CY 2017.