

KCTCS Board Required Reserve Recommendation

Maintaining a proper reserve policy is crucial for financial stability and resilience, providing a safety net against unforeseen expenses and funding fluctuations, and enhancing KCTCS's credit position.



Purpose of the Reserve

THE KCTCS BOARD RESERVE POLICY IS DESIGNED TO ENSURE THE FINANCIAL STABILITY AND SUSTAINABILITY OF ALL KCTCS COLLEGES AND THE SYSTEM OFFICE. THIS POLICY ESTABLISHES A STRUCTURED APPROACH TO MAINTAINING SUFFICIENT RESERVE FUNDS TO ADDRESS UNFORESEEN FINANCIAL CHALLENGES, SUPPORT INFRASTRUCTURE EXPANSION, AND COVER IMMEDIATE EXPENSES ARISING FROM CATASTROPHIC EVENTS.

THE KCTCS BOARD OF REGENTS WILL ANNUALLY DETERMINE THE REQUIRED BUDGET RESERVE AMOUNT, WHICH WILL BE INCLUDED IN THE ANNUAL OPERATING BUDGET FOR EACH KCTCS COLLEGE, THE SYSTEM OFFICE, AND OTHER UNITS. THIS APPROVAL TAKES PLACE AT THE MARCH BOARD OF REGENTS MEETING.

Defining our Terms

Fund Balance

Alternatively known as: *“Carryforward” “Carryforward Fund Balance” “Carry-Over”*

These are the unexpended funds remaining at the end of a fiscal year and are rolled over to the next fiscal year. This year-end balance will be reflected in the annual Fund Balance letter provided by the System Budget Office. This value can be either positive (indicating surplus funds available for future use) or negative (indicating a deficit that needs to be addressed).

Defining our Terms

Required Reserve:

Alternatively known as: *“Board Required Reserve” “Board Reserve” “Reserve Balance” “The Reserve”*

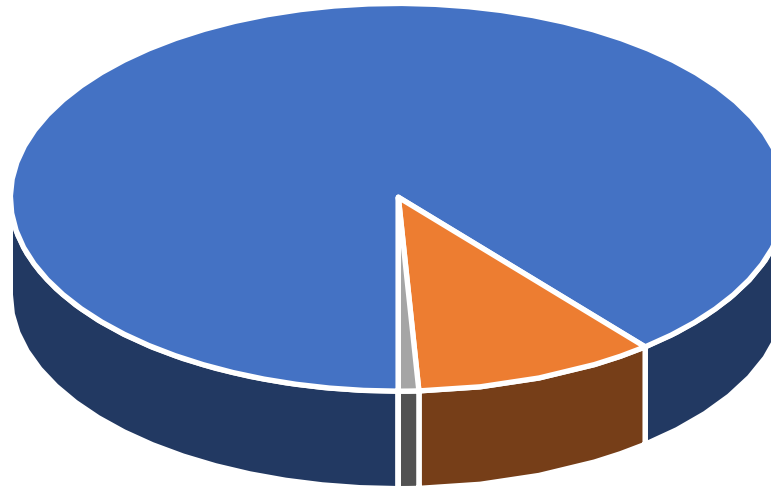
This term refers to the specific balance set for the individual Colleges, System Office and wider KCTCS, set by the governing board of the Kentucky Community and Technical College System. These funds are intended to ensure the financial stability of the organization and to cover unforeseen expenses and emergencies.

The percentage of the Required Reserve is a calculation of an institution’s public funds:

Tuition and Fees, plus Legislative Appropriation.

It does not include gifts, grants or other revenue streams subject to significant fluctuation.

How do the Fund Balance and Required Reserves Relate?



■ Combined College Unrestricted Balances

■ Current Reserve Balance

*Representing 11.27%

■ Proposed Reserve Balance

*Representing 12.32%

Higher Education Comparison

Community College Systems

KCTCS: The Kentucky Community and Technical College System
LCTCS: Louisiana Community and Technical College System
VCCS: Virginias Community College System
UNCC: University of Hawai'i Community Colleges
CCCS: Colorado Community College System
HCCS: Houston Community College System
DCCCD: Dallas County Community College District
MCCCD: Maricopa County Community College District
MCC: Massachusetts Community Colleges
NCCCS: North Carolina Community College System
Ivy Tech: Indiana Vocational Technical College

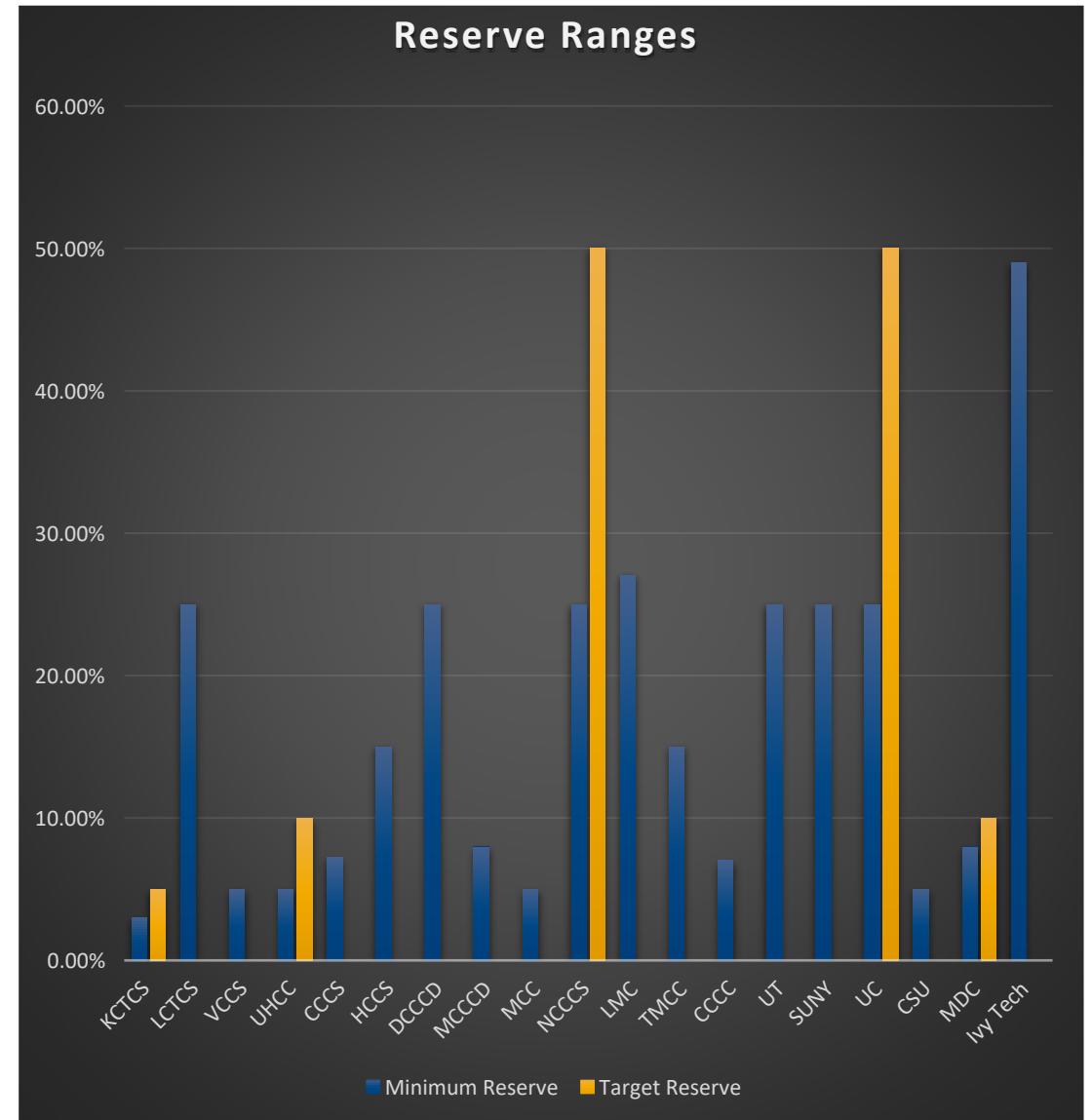
Individual CC, Coll. & Uni.

TMCC: Truckee Meadows Community College
CCCC: Colby Community College
ESCC: Enterprise State Community College
MDC: Miami Dade College
LMC: Lake Michigan College
SUNY: State University of New York
UC: University of California
CSU: California State University College



Comparative Summary

- Current policy sets the KCTCS Board Required Reserve between 3% and 5%. This is low compared to the industry average and leaves KCTCS at risk in the realm of Emergency Preparedness and decreases our Operational Flexibility.
- Other recommendations include
 - NACUBO
 - 25% of annual budget
 - Inside Higher Education
 - 40% of annual budget
 - CommonFund
 - 3-6 months or 25-25% of annual budget
 - Government Finance Officers Association
 - 2 months minimum; target of 3-6 months





An Updated Reserve Plan

Colleges

Increase from 3% - 5% to 5% - 7%

.25% increase annually over the course of 8 years.

System Office

Increase from 3%-5% to 10%

.7% increase annually over the course of 10 years

Additional funds held by the System Office are intended to shore up any fund needs incurred by a College or other business line that has already utilized its reserve.

*% are based on net public funds (Tuition, Mandatory Fees and State Allocation)

Usage of Reserves

Any use of the required reserves must receive explicit approval from the KCTCS System President. Appropriate uses include addressing shortfalls, supporting operating expenses during revenue fluctuations, funding unbudgeted infrastructure opportunities, and covering expenses from catastrophic events.

Colleges must first use their expendable fund balance before accessing the Board Required Reserve. The College President must seek authorization from the System Office President to utilize the reserve.



Protection of the College Reserves

It is not the intention that any portion of the Required reserve and annual carry-forward balances of each KCTCS College be used for system-wide coverages. These balances remain as discretionary funds for the colleges. We are simply asking that an increased portion be earmarked to cover those incidents and opportunities that are unknown at the time of budget drafting.

Review and Reporting

A permanent workgroup will assess the suitability, impact and effectiveness of the reserve policy.

The KCTCS Board of Regents will review recommendations and the reserve policy annually.





Final Thought

- Maintaining a proper reserve policy is crucial for financial stability and resilience, providing a safety net against unforeseen expenses and funding fluctuations, and enhancing KCTCS's credit position.