



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: November 19, 2024

TITLE: Proposed Amendment to Board Policy 5.10 Reserves and Year-End Balances (First Reading)

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Steve Ernest, System Director for Financial Planning and Analysis

Metody Popov, System Director for Financial Reporting

PURPOSE

Board Policy 1A.1 *Minnesota State Colleges and Universities Organization and Administration*, Part 6. *Board Policies and System Procedures* requires board review and approval of proposed board policy changes and that each board policy is reviewed at least once every five years.

Board policy 5.10 was last reviewed in 2014 with no substantive changes.

As reported to the board in June of 2024, flexibility for further use of system reserves is limited. Current policy related to system reserves allows the system office to maintain a system general fund reserve of up to two percent of the annual Minnesota State Colleges and Universities state appropriation, which can be used at the discretion of the chancellor, currently resulting in a maximum reserve of just over \$18 million. The projected system reserve for fiscal year 2025 is \$5.75 million.

The review and potential changes of Board Policy 5.10 began in September 2024 with discussions at both the Leadership Council and Board of Trustees annual retreats, resulting in the proposed amendment before you today.

BACKGROUND INFORMATION

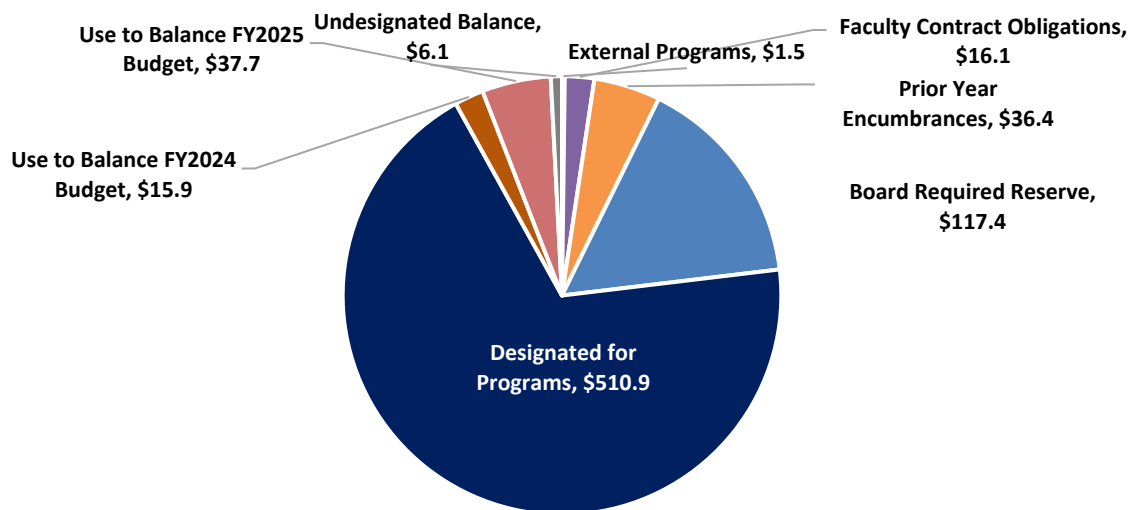
[Board policy 5.10](#) *Reserves and Year-End Balances* codifies the board's desire to maintain an appropriate portion of year-end general fund balances at colleges, universities, and at the system level designated as a reserve for which no use is presently planned.

The year-end fund balance is the result of beginning balance plus new revenues received minus

expenditures paid within the year and represents a current perspective of the net cash position at a point in time. In fiscal year 2023, the system fund balance of \$742 million was equal to about 46 percent of the system’s general fund revenue for that year. In fiscal year 2024, that amount is \$778 million which equates to 43 percent.

Board policy requires colleges, universities, and the system office to classify year-end balances as either restricted or unrestricted. Restricted balances are those for which use is restricted by parties external to Minnesota State (e.g., grantors, the legislature) or as part of Minnesota State’s contractual obligations. Unrestricted balances are those for which the use is not externally or contractually restricted and are categorized as designated for programs or other specific uses, designated for reserves, and undesignated.

The chart below illustrates fiscal year 2023 fund balance categorizations. The portion of fund balance that is designated for reserves by a college, university, or the system office is that part of the year-end general fund balance with no current planned use. For most colleges and universities, reserves are a small portion of year-end general fund balances/cash (approximately 15 percent at the system level).



At the end of fiscal year 2024, all but two of the colleges and universities maintained reserves in the five to seven percent range totaling \$103.9 million. All colleges maintained a seven percent reserve except four colleges that are at six percent and one that is at five percent. One university ended fiscal year 2024 with a seven percent reserve, one with a six percent reserve, three at five percent and two at two percent. The system’s reserve level was at \$13.25 million (one percent of general operating revenue) at the close of fiscal year 2024.

The accumulation and preservation of college, university, and systemwide reserves is a critical management responsibility. Principles related to creation, maintenance, and use of reserves include:

- **Sudden revenue shortfall** - The system level reserve has been used to assist colleges and universities with financial challenges. The presence of reserves prevents immediate expense reductions when revenue or enrollment falls short. The fiscal year 2024 actual

reserves would provide approximately 20 days of operating cash.

- **Unanticipated expenses** - Board reserves are critical to the financial health of a college or university and its ability to respond to unexpected events without having to impact current operating commitments. Examples include responses to storm damage or new program opportunities.

System level reserves totaled \$6 million in fiscal year 2005, gradually increased to \$14 million as of fiscal year 2023, and drops to \$5.75 million in fiscal year 2025.

Use of these system reserves from fiscal years 2005 to 2022 included providing eleven (11) loans to colleges and universities ranging from \$50,000 to over \$2.0 million for a total of \$4.9 million. Some loans provided financial support as a college or university balanced operating budgets while other loans provided financial support to acquire property for a college or university.

The system reserve reduction from \$14 million in fiscal year 2023 to an anticipated \$5.75 million in fiscal year 2025 results from:

- a \$750,000 loan to Bemidji State University (BSU) designated as an operating reserve as reported to the board in June 2023;
- an additional \$2 million will be loaned to BSU to help address the university's fiscal year 2025 anticipated cash flow challenges as reported to the board in June 2024
- a \$2 million potential loan to St. Cloud State University (SCSU) that will be designated as an operating reserve as reported to the board in June 2024; and
- a \$4.5 million loan to the system office to pay the up-front costs of redesigning the system office space at the Wells Fargo building to maximize space-utilization in a reduced footprint as reported to the board in January 2024.

PROPOSED CHANGES TO POLICY AND PROCEDURE

In June 2024, the board expressed concern that the current systemwide reserve levels and practices are not sufficient in the event there are other immediate short-term needs.

The goal of this policy proposal is to increase the enterprise/system reserve by requiring colleges and universities to dedicate 5 percent of their annual general fund revenues. Pooling college and university reserves in addition to the current systemwide reserve would create a loan fund of approximately \$80 million that would be administered by the chancellor.

A systemwide reserve pool would require investment from colleges and universities of five percent of general fund revenues and would be held and administered by the chancellor. Colleges and universities would maintain local control over additional reserve funds, which could range from one to five percent of their general fund revenues. Essentially, this proposal increases the range established in policy from five to seven percent to a range of six to ten percent of a college or university's general fund revenue.

Establishing a system reserve pool will provide more resources to support college and university

emergency needs such as revenue shortfalls and unexpected expenditures as well as system enterprise investments. Colleges and universities will be able to request emergency assistance in the form of loans to maintain financial health and avoid risk to accreditation status.

Additional changes are included in the proposed revised policy document. These proposed policy changes

- clarify that the policy refers to year-end general fund balances,
- increase the percentage range of required reserves, and
- add an annual reporting requirement.

Changes to policy require changes to procedure to ensure alignment. These proposed procedure changes

- clarify that the related procedure also refers to year-end general fund balances and reserves,
- reorganize and build clarity in the definitions section,
- modify the minimum and maximum reserve levels for colleges and universities,
- establish a systemwide reserve pool including how it will be funded and managed,
- modify the parameters for loans to colleges, universities, and all enterprise-wide projects or initiatives, and
- strengthen the reporting requirements regarding the use of reserves.

Operating instructions will be created upon approval of the proposed policy and procedure changes. These instructions will provide direction on how the policy and procedure modifications will be operationalized and will include information about how to request loans from the reserve pool, interest payments on loans disbursed, and interest income distribution among other things.

IMPACT ON COLLEGE AND UNIVERSITY FINANCIAL HEALTH

The creation of a system wide reserve pool is intended to have a neutral impact on college and university financial health. A Composite Financial Index (CFI) methodology is used by the Higher Learning Commission as a gauge of its member institutions' financial health. Generation of a positive operating margin and the preservation of fund balances are very strong positive influences on the CFI. Severe financial stress can put the college's accreditation (and access to federal financial aid for students) at risk.

Individual college and university financial statements would not be impacted by the proposal because their current assets will not change. The portion of each college and university's share of the systemwide reserve pool would be reflected as a "advances to" (also known as a receivable to) the system office rather than cash on the balance sheet. The Higher Learning Commission's CFI measures will not be impacted by this process.

CFI methodology uses a college or university's net position as part of the calculation. Net position is equal to total assets less total liabilities, i.e., what you have for resources less what you owe. Because both cash and "advances to" are assets, this change will not impact a college or university CFI.

As is our current practice, interest accrued on cash balances residing in the state treasury will be retained in full by each college and university. At least annually, and potentially bi-annually, accrued interest will be calculated based on the current methodology, which calculates each institution's share of the total balance and applies that share to the interest accrued. The interest is then paid to each college and university.

NEXT STEPS AFTER FIRST READING

The proposed policy (Attachment A) and accompanying system procedure (Attachment B) are currently undergoing a 30-day review and comment by college, university, and system office staff. At the conclusion of this 30-day review, comments will be compiled and analyzed, and any additional modifications to the proposed policy document will be considered. College and university finance leaders and the system office will then conduct working sessions in December to discuss the proposed changes and consider revisions. Appropriate consultation will continue before finalizing the policy and procedure proposed changes to bring back to the Board for final approval.

REVIEW AND APPROVAL BY THE BOARD

This month's presentation provides the first reading for the proposed changes to this policy. A motion to adopt policy changes is planned to be presented as part of the second reading at the January 2025 board meeting. Discussions at today's meeting, conversations and legwork with college and university financial leaders, and results of stakeholder commentary will lead to additional changes to the proposed policy and procedure language.

<i>Date Presented to the Finance and Facilities Committee:</i>	<i>11/19/24</i>
<i>Date Presented to the Board of Trustees:</i>	<i>First reading – no action taken</i>
<i>Date of Implementation:</i>	<i>TBD</i>

PROPOSED CHANGES (FIRST READING DRAFT)

Single underlining represents proposed new language.

Strikeouts represent existing language proposed to be removed

1 **5.10 General Fund Reserves and Year-End Balances**

2
3 **Part 1. Authority**

4 Pursuant to Minn.~~esota~~ Stat.~~ute~~ 136F.06, subd. 1, the ~~board~~ Board of Trustees ~~shall possesses~~
5 all powers necessary to govern the ~~state~~ colleges and universities and all related property.
6 Those powers ~~shall~~ include adopting suitable policies for the institutions it governs. Board
7 Policy 7.1, Finance and Administrative Authority of Board, Chancellor and Presidents,
8 delegates authority to the chancellor to develop procedures and operating instructions
9 guidelines which implement the board's policies for the administrative and financial
10 management of the system, including all colleges and universities.

11 **Part 2. OverviewPolicy**

12 ~~It is the policy of the board that the~~ Minnesota State ~~Colleges and Universities~~ shall maintain
13 an appropriate portion of year-end general fund balances designated as a reserve for which no
14 use is presently planned.

15
16 **Part 3. Accountability / Responsibilities**

17 The system office is responsible for maintaining a portion of the overall system resources as a
18 system reserve. ~~The office may maintain a~~ This system general fund reserve may not exceed of
19 up to two percent of the annual Minnesota State ~~Colleges and Universities state~~ appropriation,
20 ~~which and~~ can be used at the discretion of the chancellor.

21 The president at each college and university is responsible for maintaining a portion of the
22 college or university ~~resources~~ general fund balance as a reserve.

23 A college or university general fund reserve ~~should~~ must be include five ~~to seven~~ percent of the
24 previous year's general fund operating revenues that is contributed to a systemwide reserve
25 pool, plus one to five percent additionally to be managed locally. The systemwide reserve pool
26 is established to be used for loans to colleges, universities, and enterprise investments.

27
28 **Part 4. Reporting**

29 The chancellor or designee shall report to the board annually the levels of year-end balances
30 and reserves by college, university, and the system office. The chancellor or designee shall also
31 provide an annual accounting related to the systemwide reserve pool.

Related Documents:

- [System Procedure 7.3.16 - Financial Health Indicators](#)
- [Operating Instruction 7.3.16.2 - Financial Health Indicator Responses](#)

Date of Adoption: 06/21/00

Date of Implementation: 06/21/00

Date of Last Review:

Date and Subject of Amendments:

[Xx/xx/xx – add summary](#)

12/16/14 - Policy 5.10 went through a periodic review. No substantive changes were made.

Additional [HISTORY](#).

PROPOSED CHANGES (FIRST READING DRAFT)

Single underlining represents proposed new language.

Strikeouts represent existing language proposed to be removed.

32 **5.10.1 General Operating Fund Year-End Balances and Reserves**

33

34 **Part 1. Authority.**

35 Board Policy 7.1, Finance and Administrative Authority for Board, Chancellor and Presidents, delegates
36 authority to the chancellor to develop procedures and guidelines which implement the board's Board
37 of Trustee's policies for the administrative and financial management of the MnSCU Minnesota State
38 Colleges and Universities system, ~~include all colleges and universities.~~

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40 **Part 2. Definitions.**

41

42 **Subpart A. Net Asset Balances.**

43 Calculated under generally accepted accounting principles, net asset balances are based on full
44 accrual of all assets and liabilities. They include all assets including property, plant, and equipment,
45 and all liabilities including those that will not be paid for several years. These liabilities include any
46 long-term debt for bonds sold, compensated absences, and workers compensation. The net asset
47 balance takes a long-term view and includes all revenues earned and obligations incurred
48 regardless of when received or paid and recognizes the depreciation of buildings and equipment.

49

50 Net Asset balances reported in the Annual Financial Statements for Minnesota State and individual
51 colleges and universities will differ from budgetary year-end fund balances.

52

53 **Subpart B. Budgetary Year-End Fund Balances.**

54 The budgetary The year-end fund balance is the result of beginning balance plus new revenues

55 received minus expenditures paid within the year, and represents a current perspective of the

56 net cash position at a point in time.

57

58 It is the policy of the board that the Colleges, universities, and the system office shall provide for
59 classification of all year-end budgetary fund balances in accordance with the following distinctions.

60 Year-end fund balances consist of the following components:

61

- 62 • Restricted - Balances for which the use is restricted by parties external to
- 63 MnSCU Minnesota State or as part of Minnesota State's contractual obligations.
- 64 • Unrestricted - Balances for which the use is not restricted by parties external to
- 65 MnSCU Minnesota State or as part of Minnesota State's contractual obligations.

66 Unrestricted balances will be designated in one of the following manners:

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68 1. Designated for Programs or Other Uses - Balances designated by the system office

69 or the institution colleges and universities for programs and future specific

70 purposes.

71 2. Designated for Reserves - Balances designated by the system office or the

72 institution colleges and universities for reserves which no use is currently planned.

72 2.3. Undesignated - Balances not restricted, designated, or reserved by the system
73 office or the colleges and universities.

74 ~~Reserve. A reserve is that part of an institution's year-end general fund balance, which is~~
75 ~~designated as a reserve and for which no use is presently planned. Reserves are to be~~
76 ~~designated consistent with this procedure. Reserves for funds other than the general fund are~~
77 ~~to follow the policies and procedures established for those funds.~~

78
79 ~~Subpart B. Subpart C. Reserve.~~

80 ~~That part of an institution's a college or university or the system office's year-end general fund~~
81 ~~balance, which is designated as a reserve and for which no use is presently planned. Reserves are~~
82 ~~to be designated consistent with this procedure. Reserves for funds other than the general fund~~
83 ~~are to follow the policies and procedures established for those funds.~~

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86 ~~Subpart D. Systemwide enterprise.~~

87 ~~Activities or requirements engaged in across the entire organization.~~

88
89 ~~Net Asset Balances. Net Asset balances reported in the Annual Financial Report for MnSCU and~~
90 ~~individual colleges and universities will differ from budgetary fund balances.~~

91 ~~Net Asset balances are calculated under generally accepted accounting principles and are based on~~
92 ~~full accrual of all assets and liabilities. They include all assets including property plant and~~
93 ~~equipment, and all liabilities including those that will not be paid for several years. These liabilities~~
94 ~~include any long term debt for bonds sold, compensated absences and workers compensation. The~~
95 ~~net asset balance takes a long term view and includes all revenues earned and obligations incurred~~
96 ~~regardless of when received or paid and recognizes the depreciation of buildings and equipment.~~

97
98 ~~Net Asset balances reported in the Annual Financial Statements for Minnesota State and individual~~
99 ~~colleges and universities will differ from budgetary fund balances.~~

100
101 ~~Subpart C. Budgetary Balances. The budgetary fund balance takes a current perspective and is~~
102 ~~the result of revenues and expenditures received or paid within the year.~~

103
104 ~~It is the policy of the board that the colleges, universities, and system office shall provide for~~
105 ~~classification of all year-end budgetary fund balances in accordance with the following~~
106 ~~distinctions. Year-end fund balances consist of the following components:~~

107
108 ~~Restricted. Balances for which the use is restricted by parties external to MnSCU.~~

109 ~~Unrestricted. Balances for which the use is not restricted by parties external to MnSCU.~~

110 ~~Unrestricted balances will be designated in one of the following manners:~~

111 ~~Designated for Programs. Balances designated by the system office or the institution for~~
112 ~~specific purposes.~~

113 ~~Designated for Reserves. Balances designated by the system office or the institution for~~
114 ~~reserves.~~

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~~Undesignated. Balances not restricted, designated, or reserved by the system office or the institution.~~

Part 3. Purpose of Reserves.~~—~~

System and/or ~~institution-college and university~~ reserves may be called upon in cases where other reasonable methods have been insufficient to maintain a balanced budget. Generally, there are three primary uses for reserves: (1) to protect the system and individual ~~institutions-colleges and universities~~ in cases of sudden shortfalls in revenue; (e.g., unforeseen shortfall in enrollment or a reduction in state appropriation within the biennium); (2) to cover unanticipated expenses (e.g., one-time legal fees, major disasters, unanticipated increases in utility costs); and (3) to provide for extraordinary one-time investments.

Part 4. Level of Reserves.~~—~~

Any college or university with a general fund reserve below five (5) percent ~~of the previous-year's general fund operating revenues~~ must have a plan approved by the ~~shall report to the~~ vice chancellor ~~—chief financial officer for Finance information on addressing~~ current fiscal conditions ~~with and provide including~~ a detailed plan to achieve a minimum level. Any institution seeking to maintain reserves above ~~seven-ten (7-10)~~ percent ~~of the previous-year's general fund operating revenues~~ must have a plan approved by the vice chancellor ~~—chief financial officer for Finance~~.

Part 5. Systemwide Reserve Pool.~~—~~

~~Systemwide~~ reserves are accumulated through a combination of system office balances ~~designated as reserves plus a systemwide reserve pool comprised of five (5) percent of the general fund revenues for each college and university. This systemwide reserve pool is held and managed at the system level.~~

~~Contributions to the pool are reviewed at least biennially (at the end of the even numbered year) and adjusted as needed.~~

Part 56. Conditions of Eligibility for Use.~~—~~

Consistent with the policy, the systemwide reserve ~~pool can be~~ used at the discretion of the chancellor ~~when a college, university, or the systemwide enterprise requires short-term financial assistance and other sources are limited. —and~~

~~C~~college/university reserves ~~beyond five (5) percent~~ can be used at the discretion of the president.

Reserves must be properly accounted for in the accounting system and records of use maintained. Prior approval by the vice chancellor ~~—chief financial officer for Finance~~ is required when an institution seeks to reduce its general fund reserve below ~~three-five~~ percent.

Part 6 7. Assistance Loans from the Systemwide Office Reserve Pools.

Subpart A. Loans to colleges and/or universities.

161 If ~~an institution~~ a college or university ~~exhausts its reserve or may potentially exhaust~~
162 ~~its~~ must use its reserve, the president ~~can may~~ seek assistance from the systemwide ~~office-~~
163 ~~reserve~~ pool through a formal request to the ~~chancellor and the vice chancellor-~~
164 ~~chief financial officer for Finance~~. The ~~chancellor~~ president and the vice chancellor ~~-chief financial~~
165 ~~officer for Finance~~ will determine the size ~~and form~~ of the ~~assistance~~ loan and establish a
166 repayment schedule including interest at that time. ~~The college or university must provide~~
167 specific strategies by which it will re-establish its required reserve and a timeline for the
168 implementation of each strategy including milestones with specific dates on which progress
169 will be made. Interim reports during the fiscal year to the vice chancellor may be required.

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171 **Subpart B. Loans to the systemwide enterprise.** If the systemwide enterprise requires
172 assistance from the systemwide reserve pool, the chancellor or designee will inform the
173 board of the size of the loan and the repayment schedule established including interest.
174 The chancellor or designee will provide specific strategies by which it will re-establish its
175 required reserve including milestones with specific dates on which progress will be made.
176 Interim reports during the fiscal year to the board may be required.

177 178 **Part 7.8. Reporting-**

179 The chancellor ~~will~~ shall report annually to the board concerning the uses of and outlook for the
180 systemwide reserve pool, system reserve, and the outlook for college and university reserves.
181 The ~~systemwide reserve pool-reserve~~ report will include a list of ~~all requests made to the vice~~
182 ~~chancellor-chief financial officer for use of system reserves, the requested use, and the dollar~~
183 ~~amount requested.~~ The report will also include requests approved, the description purpose of
184 the requests, and the dollar amount approved, and the repayment schedule.

Related documents:

- System Procedure 7.3.16 Financial Health Indicators
- Operating Instruction 7.3.16.2 Financial Health Indicator Responses

Procedure History:

Date of Implementation: 12/18/02
Date of Adoption: 12/18/02
Date of Last Review: xx/xx/xx

Date and Subject of Revision:

Xx/xx/xx – add summary

3/06/15 - Periodic review complete. Procedure 5.10.1 went through a periodic review. Only technical changes were made to the existing procedure.

1/25/12 - The Chancellor amends all current system procedures effective February 15, 2012, to change the term “Office of the Chancellor” to “system office” or similar term reflecting the grammatical context of the sentence.