



Board Policy 5.10 Reserves and Year-End Balances

Finance and Facilities Committee

Finance and Facilities Division

November 19, 2024

Impetus Behind Policy Review

- Board Policy 5.10 Reserves and Year-End Fund Balances and System Procedure 5.10.1 General Operating Fund Reserve has not been reviewed for over a decade and is slated for review this fall
- Current systemwide reserve of \$14 million is not sufficient to support cash flow needs for enterprise-wide projects, the system office, and provide assistance to colleges and universities experiencing short-term financial challenges such as sudden revenue shortfalls or extreme, unanticipated expenses outside the control of the college or university or system office. With current commitments, FY2025 systemwide reserve is \$5.75 million.

Overview of Presentation

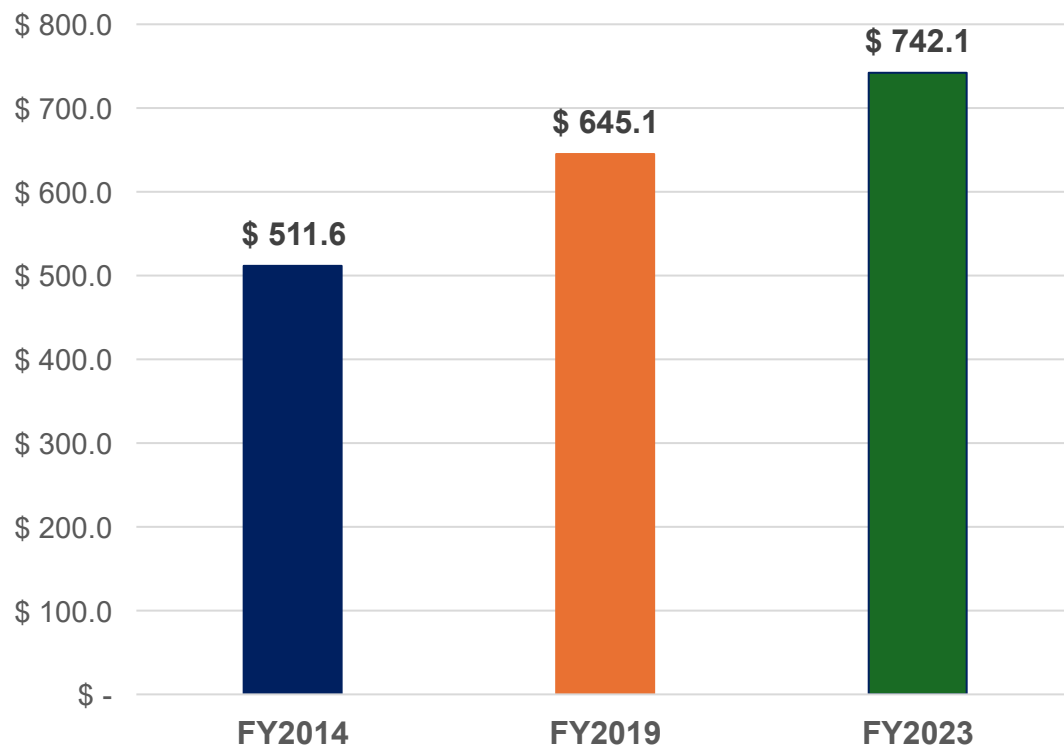
- Policy and Procedure Definitions
- Creation of a Systemwide Reserve Pool
- Impact on Colleges and Universities
- Next Steps

Year-End General Fund Balances

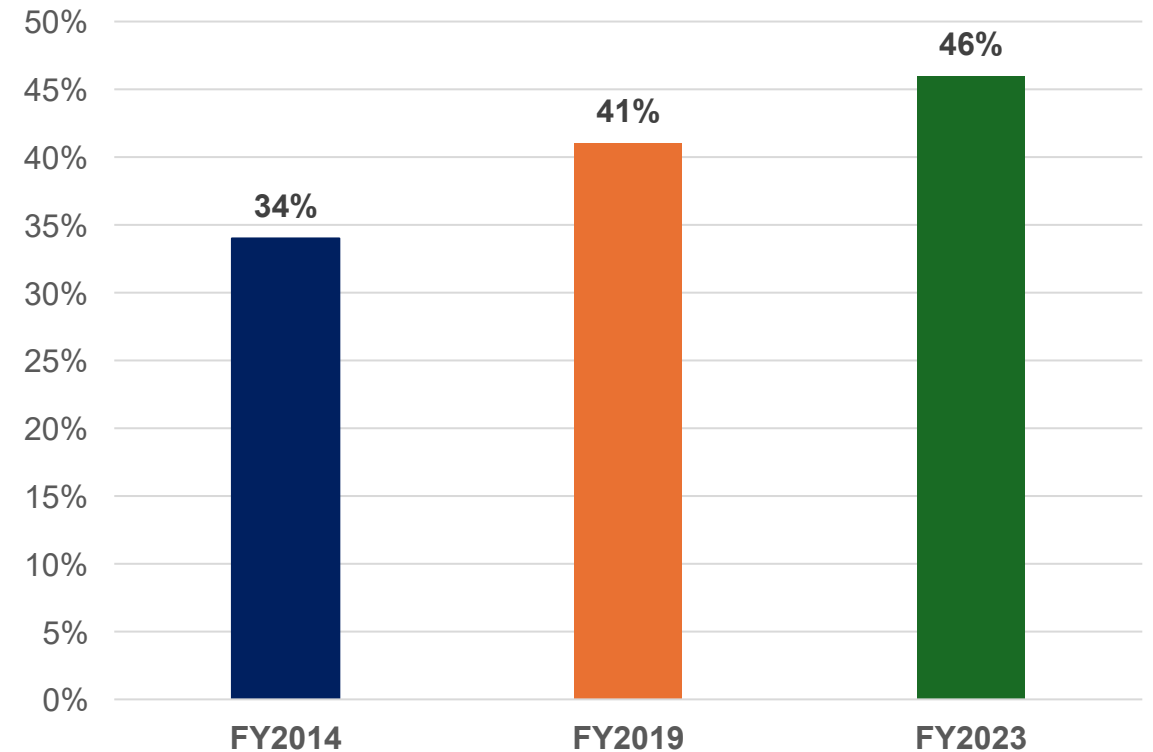
- The year-end general fund balance is the result of beginning balance plus new revenues received minus expenditures paid within that year from the general fund. It represents a current perspective of the net cash position at a point in time.
 - FY2023 year-end general fund balance was \$742.1 million.
 - FY2024 year-end general fund balance was \$772.6 million.

Year-End General Fund Balance Increases Over Time as Revenue Increases

Fund Balance
\$ in millions



Fund Balance as % of Annual Revenue



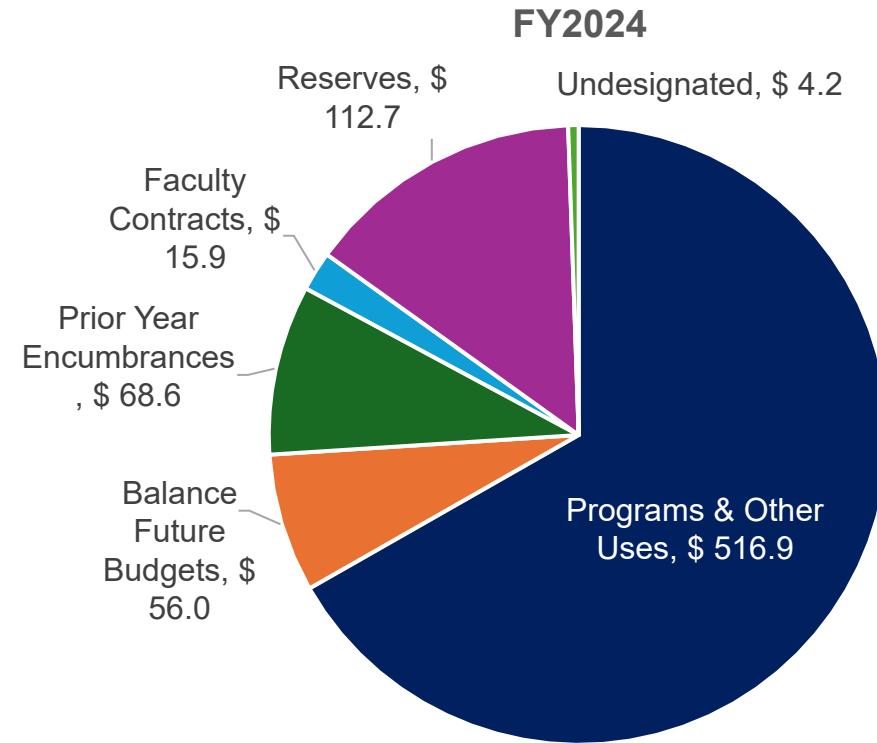
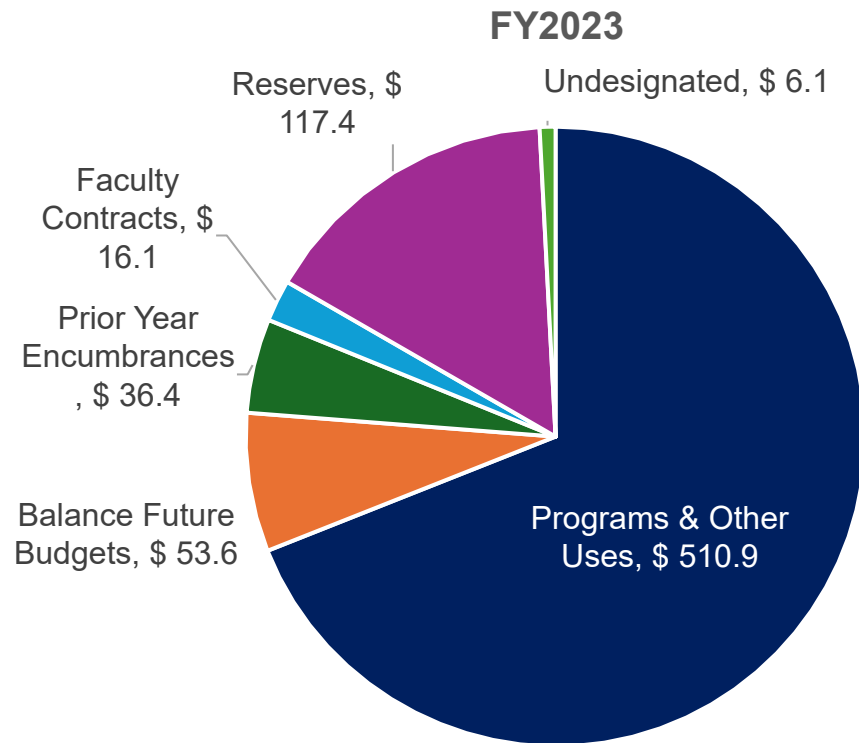
Year-End General Fund Balances

- Year-end fund balances consist of Restricted and Unrestricted components.
 - Restricted balances are those for which the use is restricted by parties external to Minnesota State or as part of Minnesota State's contractual obligations.
 - Unrestricted balances are those for which the use is NOT restricted by parties external to Minnesota State or as part of Minnesota State's contractual obligations.

Unrestricted Year-End Fund Balance

- Unrestricted balances are categorized in one of three ways:
 - Designated for Programs or Other Uses
 - Balances used by the system office or the colleges and universities for programs and future specific purposes.
 - Designated for Reserves
 - Balances used by the system office or the colleges and universities for which no use is currently planned.
 - Undesignated
 - Balances not restricted, designated, or reserved by the system office or the colleges and universities.

FY2023 – FY2024 unrestricted year-end balances remain relatively stable.



Reserves

- Generally, there are three primary uses for reserves:
 - to protect the system and individual 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);
 - to cover unanticipated expenses (e.g., one-time legal fees, major disasters, unanticipated increases in utility costs); and
 - to provide for extraordinary one-time investments.

Systemwide Reserve Pool Proposal

Create an enterprise/systemwide reserve pool by requiring colleges and universities to dedicate 5% 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.

Rationale for Creating a Systemwide Reserve Pool

- Maximum allowed in current policy of \$18 million falls well short of known needs. FY2025 amount projected to be \$5.75 million.
- Short-term and long-term commitments will require a substantial pool of cash to meet system needs
 - Known needs:
 - Loans for providing short-term assistance to colleges and universities with significant financial challenges
 - Loans for short-term NextGen project cash flow needs
 - Potential future needs:
 - Loans for building demolition
 - Loans for extraordinary situations

Impact on College and University Operations

- The creation of a systemwide reserve pool will have a minimal impact on college and university financial health.
- For most colleges and universities, reserves are a small portion of fund balance/cash (16% at the system level).
- Colleges and universities currently maintain these reserves and rarely if ever use them.
- A loan would use cash from all colleges and university on a pro-rated basis and paid back with interest on a pro-rated basis.
- College and university reserve funds, whether in the pool or held locally, continue to earn interest from residing in the state treasury.

Impact on College and University Financial Health Measures

- Individual colleges and universities financial statements would not be impacted by the proposal
 - Current assets will not change
 - The portion of each college and university's share of the systemwide reserve pool would be reflected as an "advance to" the system office rather than cash on the balance sheet
- This proposal will not impact college and university CFI, a measure used by the Higher Learning Commission when evaluating financial health for accreditation purposes
 - Net position is equal to total assets less total liabilities
 - Because both cash and "advances to" are assets, this change will not impact a college or university CFI

Board Policy/Procedure 5.10 & 5.10.1 Reserves and Fund Balance Review Proposed Timeline

- September 2024 - initial conversations with Board of Trustees, Leadership Council, and CFOs
- Fall 2024 – Official 30-day comment period and statewide Meet and Confer presentations
- November 19-20, 2024 - Board of Trustees first reading
- December 2024 – Working sessions with CFOs on accounting procedures
- January 28-29, 2025- Board of Trustees second reading
- March 2025 - Implementation of new policy and procedure

Stakeholder Comments to Date

- Codify the approval process and the accountability of the system office utilizing systemwide reserve pool funds.
- What are the consequences if a loan from the pool is not repaid?
- Does the creation of this pool penalize college and universities with solid financial standing?
- What is the process for colleges and universities accessing systemwide reserve pool funds?
- Transparency of systemwide reserve pool activity.
- How often do colleges and universities contribute to this pool?



Board Policy 5.10

Reserves and Year-End Balances

Finance and Facilities Committee

Finance and Facilities Division

November 19, 2024