



**MINNESOTA STATE**  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME:** Finance and Facilities Committee

**DATE:** March 19, 2025

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

Action  Review and Discussion

*This item is required by policy*

**PRESENTERS**

Bill Maki, Vice Chancellor for Finance and Facilities  
Metody Popov, System Director for Financial Reporting  
Steve Ernest, System Director for Financial Planning and Analysis

**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.

The proposed changes before you today result from multiple presentations, discussions, and consultation with Presidents, Chief Financial Officers (CFOs), and statewide bargaining units since September 2024.

**CONSULTATION SINCE FIRST READING IN NOVEMBER 2024**

In response to questions raised by the board at the first reading, the system's presidents engaged in additional discussion at Leadership Council meetings and CFOs engaged in discussion at their winter conference to provide advice on how to improve the proposal and what were key elements in an operating instruction document. Their concerns and advice were collected and used as a blueprint for a work group to finalize the proposal for its second reading.

Volunteers from the CFO community worked with system staff to develop modifications to the proposal and to create operating instructions. These instructions provide direction on how the policy and procedure modifications will be operationalized and include information about eligibility to obtain a loan from the reserve pool, interest payments on loans disbursed, and

interest income distribution among other things.

The revised proposal package, including clarifying language modifications new operating instructions, were shared at Meet and Confer sessions with bargaining unit representatives, provided to the CFO community for an additional review, shared with Leadership Council, and were posted on the system's policy and procedure review site for another 30 day review and comment period.

There were four comments in this round, reiterating concerns that have been raised previously and addressed in the proposal before you today. The concerns centered on whether it was taking away institutional autonomy by pooling reserves into a system pool and if an institution utilized a loan from the pool if they would have an unfair advantage over other colleges and universities.

Because of the significant changes to this policy and procedure and after the discussion during the first reading in November 2024, it was felt that the supporting System Procedure 5.10.1 and Operating Instruction 5.10.1.1 documents should be included in this packet to provide a complete picture of how all three documents are intended to work together. Under normal circumstances, only the policy document would be presented here.

## **BACKGROUND INFORMATION**

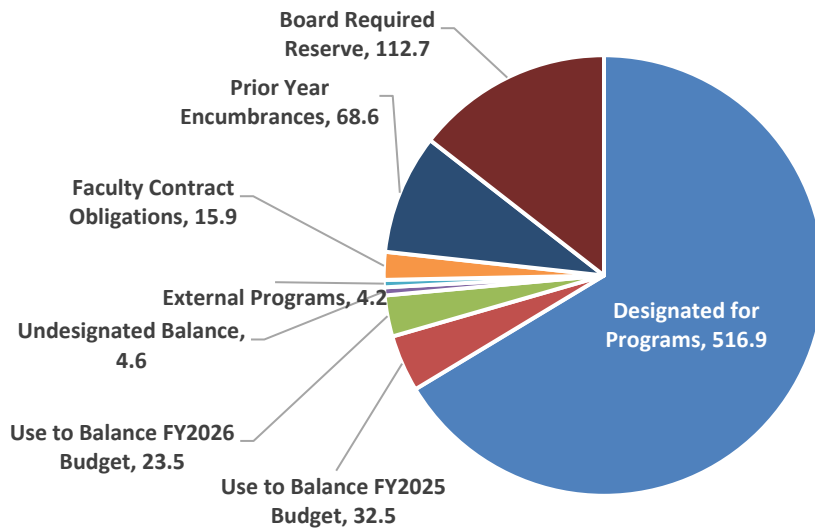
Board policy 5.10 Reserves and Year-End Balances codifies the board's desire to maintain an appropriate portion of year-end general fund balances at colleges, universities, and at the system level designated **as a reserve for which no use is presently planned**. This distinction is vital to understanding these proposed changes. The balances in question are not planned for any type of use by the individual college or university. These balances are in addition to the balances planned for investments in new programming and/or balancing the annual budget.

As a reminder, 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.

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 2024 fund balance categorizations. For most colleges and universities, reserves are a small portion of year-end general fund balances/cash (approximately 14 percent at the system level).

## Fiscal Year 2024 Fund Balance Categorizations



Current system procedure requires colleges and universities to maintain reserves ranging from five to seven percent of the previous year's general fund operating revenues. At the end of fiscal year 2024, all but two of the colleges and universities maintained reserves in the 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.

Current board policy allows the system 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. The system's reserve level was at \$13.25 million (about one percent of state appropriation) at the close of fiscal year 2024.

The accumulation and preservation of college, university, and systemwide reserves is a critical management responsibility established to mitigate emergencies and issues requiring immediate solutions such as sudden significant revenue shortfalls, unanticipated expenses like storm or fire damage, or extraordinary one-time investments.

As reported to the board in June of 2024, flexibility for further use of system reserves is limited.

### **PROPOSED CHANGES TO POLICY AND PROCEDURE**

In June 2024, the board expressed concern that the current enterprise/system reserve levels and practices are not sufficient to handle potential immediate short-term needs.

The goal of this proposal is to *increase the effective amount of the system reserve by managing colleges and universities already-required reserves (5 percent of annual general fund revenues) at the system level. Managing college and university reserves together with the current systemwide reserve would create a loan pool of approximately \$80 million that would be administered by the chancellor.*

An enterprise/system reserve pool would co-locate the portion of college and university reserves

equal to five percent of their general fund revenues and would be administered by the chancellor. Colleges and universities would maintain local control over additional reserve funds, which could range up 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 five to ten percent of a college or university's general fund revenue.

Establishing an enterprise/system reserve pool is intended to provide sufficient resources to support college and university emergency and time sensitive needs as described previously. Colleges and universities will be able to request emergency assistance in the form of loans if they are experiencing significant financial challenges.

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

- clarify that the system reserve pool is to be used in emergencies or in significant issues of an urgent nature,
- clarify that the policy refers to year-end general fund balances,
- increase the percentage range of required reserves from seven percent to ten percent, and
- add an annual reporting requirement to the board.

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,
- establish a minimum level of the system reserve pool,
- modify the parameters for loans to colleges, universities, and all enterprise-wide projects or initiatives,
- establish a variable interest assessed against the prior year average ITC earnings, and
- strengthen the reporting requirements regarding the use of reserves.

Addition of operating instructions

- administration of the loan pool that includes loan terms and the memorandum of understanding between the chancellor and the president,
- accounting for the pooled reserves on individual college and university's statement of net position,
- recording on interest earnings,
- analysis on an annual basis of total amount of reserve pool.

### **IMPACT ON COLLEGE AND UNIVERSITY FINANCIAL HEALTH**

Individual college and university financial statements will 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 will 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.

Institutions that never use the enterprise/system reserve pool are not disadvantaged by their reserves being part of the pool, because they receive the same interest regardless of whether or not any portion of the pool is loaned out.

For the same reason, institutions that need to borrow from the pool are not disadvantaged by having to pay interest on their own funds in the pool because they receive interest on their funds in the pool whether their portion of the pool is loaned out or not. Further, interest paid by an institution that needs to borrow from the reserve pool will be calculated and adjusted annually and tied to the prior year average ITC interest rate. Tying the interest rate on loans issued to the interest on cash in the treasury provides that the net effect of borrowing through the pool is the same as using reserves outside the pool: no interest is earned on funds needing to be expended.

### **RECOMMENDED ACTION**

The Finance and Facilities Committee recommends that the Board of Trustees approve the proposed amendment to Policy 5.10 Reserves and Year End Balances.

*Date Presented to the Finance and Facilities Committee:* 3/19/25

*Date Presented to the Board of Trustees:* 3/19/25

*Date of Implementation:* 3/19/25

## PROPOSED CHANGES (SECOND 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**

#### 3 **Part 1. Authority**

4 Pursuant to Minnesota Statute 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 guidelines which implement  
9 the board's policies for the administrative and financial management of ~~the system, including~~  
10 ~~all colleges and universities~~Minnesota State Colleges and Universities.

#### 11 **Part 2. Overview**

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.

#### 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. The college or university  
23 reserve must be between five and ten percent of the previous year's general fund revenues.-

24 The five percent minimum reserve level will be held centrally in a systemwide reserve pool. A-  
25 college or university general fund reserve should be five to seven percent of the previous year's-  
26 general fund operating revenues. The systemwide reserve pool is established to be used for  
27 loans to colleges, universities, and enterprise investments in emergencies or significant issues  
28 of an urgent nature.

29 The remaining amount up to five percent of a college or university reserve will be managed  
30 locally.

#### 32 **Part 4. Reporting**

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

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39 **Related Documents:**

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

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43 **Policy History**

44

45 Date of Adoption: 06/21/00

46 Date of Implementation: 06/21/00

47 Date of Last Review:

48 Date and Subject of Amendments:

49 Xx/xx/xx – Add summary

50 12/16/14 - Policy 5.10 went through a periodic review. No substantive changes were  
51 made.

52

53 ~~Related Documents:~~

54 ~~System Procedure 7.3.16 – Financial Health Indicators~~

55 ~~Operating Instruction 7.3.16.2 – Financial Health Indicator Responses~~

56

57 Additional HISTORY.

## PROPOSED CHANGES (SECOND READING DRAFT)

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Strikeouts represent existing language proposed to be removed

### 5.10 General Fund Reserves and Year-End Balances

#### Part 1. Authority

Pursuant to Minnesota Statute 136F.06, subd. 1, the Board of Trustees possesses all powers necessary to govern the colleges and universities and all related property. Those powers include adopting suitable policies for the institutions it governs. Board Policy 7.1 Finance and Administrative Authority of Board, Chancellor and Presidents, delegates authority to the chancellor to develop procedures and guidelines which implement the board's policies for the administrative and financial management of Minnesota State Colleges and Universities.

#### Part 2. Overview

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

#### Part 3. Accountability / Responsibilities

The system office is responsible for maintaining a portion of the overall system resources as a system reserve. This system general fund reserve may not exceed two percent of the annual Minnesota State appropriation and can be used at the discretion of the chancellor.

The president at each college and university is responsible for maintaining a portion of the college or university general fund balance as a reserve. The college or university reserve must be between five and ten percent of the previous year's general fund revenues.

The five percent minimum reserve level will be held centrally in a systemwide reserve pool. The systemwide reserve pool is established to be used for loans to colleges, universities, and enterprise investments in emergencies or significant issues of an urgent nature.

The remaining one to five percent of a college or university reserve will be managed locally.

#### Part 4. Reporting

The chancellor or designee shall report to the board annually the levels of year-end balances and reserves by college, university, and the system office. The chancellor or designee shall also 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](#)*

#### **Policy History**

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.