



# **Board Policy 5.10**

## **Reserves and Fund Balances**

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**Board of Trustees**

**Finance & Facilities Committee**

**March 19, 2025**

*MinnState.edu*

# 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.

# Systemwide Reserve Pool Proposal

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.

# 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.

# Summary

WHAT WOULD CHANGE?	WHAT WOULD STAY THE SAME?
<p>The currently required minimum reserve amount (5% PYR) from each college and university would move from its own accounts to a central reserve pool</p>	<p>Each college's and university's required minimum reserve amount would still be a college or university asset and appear on its financial statements as an amount owed by the system to it</p>
<p>College, university, and system-level needs would have access to more reserve funds, with access to the entire available reserve pool</p>	<p>Each college's and university's required minimum reserve amount would still be counted towards its CFI and other financial health indicators</p>
<p>Use of reserves in the pool would require approval from the Chancellor (current requirement is approval from the Vice Chancellor to go below 3% PYR)</p>	<p>The purpose of reserves would continue to be to address unforeseen emergency and significant financial burdens in a timely fashion when no other resources are available</p>
<p>Use of reserve pool would:</p> <ul style="list-style-type: none"> <li>• be in the form of loans</li> <li>• require interest payments to cover the pool's lost ITC interest</li> <li>• distribute interest based on each college/university/system portion of the pool</li> </ul>	<p>Each college's and university's required minimum reserve amount would still earn interest based on current ITC rates regardless of whether or not loans were issued from the pool</p>

# Board Policy Revisions since First Reading

- » Clarify the purpose of systemwide reserve pool (Part 3)
  - To be used for loans and investments in emergencies or significant issues of an urgent nature
  - The five percent reserve minimum will be placed in the pool. The other one to five percent a college and university designates as reserve funds will be managed locally.
- » Reporting requirement to the Board – all activity related to the systemwide reserve pool

# System Procedure Revisions since First Reading

- » Clarify the purpose of systemwide reserve pool (Part 3)
  
- » Systemwide Reserve Pool (Part 5)
  - Interest Revenue
  - Reviewed annually and modified as needed
  - Minimum reserve pool floor recommended at 40% (~\$30-\$40M)
  
- » Loans from Systemwide Reserve Pool (Part 7)
  - Interest rates for loans
    - Alignment with ITC rates
    - Adjusted annually versus a fixed rate

# Operating Instructions Developed Since First Reading

- » Administration of the Reserve Pool
  - Loan terms – repayment schedule, interest rates, and other requirements for the borrowing entity
  - MOU between Chancellor and President
  
- » Accounting
  - Change in recording asset on C/U balance sheet
  - Recording of interest earning
  
- » Annual Analysis and Reporting
  - Reviewed annually and modified as needed



# 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
  
- » 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
    - Uncertain financial condition of the State of MN and the impact on the system and colleges and universities
    - Unpredictability of federal and state resources and the impact on the system and colleges and universities



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