



September 25, 2024

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# **Board Policy 5.10**

## **Reserves and Fund Balances**

**Board of Trustees Retreat Discussion**

# System Reserve Policy Proposal

*Increase the enterprise/system reserve 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.*

# Impetus Behind Policy Review

- » Board of Trustees priorities and concerns
- » 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. With current commitments, FY2025 systemwide reserve is \$5.75 million

# Purposes of General Fund Reserves (per definition in procedure)

- » Sudden short falls of revenue
- » Cover unanticipated expenses
- » Provide for extraordinary one-time investments

# Benefits of increasing the Systemwide Reserve

- » Short-term and long-term commitments will require a substantial pool of cash to meet system needs
  - Known needs:
    - Loans for college and university budget deficits
    - Loans for short-term NextGen project cash flow needs
  - Potential future needs:
    - Loans for building demolition
    - Loans for extraordinary situations
- » Maximum allowed in current policy of \$18 million falls well short of known needs. FY2025 amount projected to be \$5.75 million.

# System Reserve Level & Uses FY2005-FY2025

- » System level reserves totaled \$6 million in FY2005 and gradually increased to \$14 million as of FY2023 and drops to \$5.75 million in FY2025
- » System reserves provided loans (11) to colleges and universities
  - Loans have ranged from \$150,000 to over \$2.0 million for a total of \$8.5 million since FY2005
  - Some loans provided financial support as a college or university balanced operating budgets
  - Other loans provided financial support to acquire property for a college or university
- » System office redesign needs resulted in a \$4.0 million loan from system reserves and repaid within five years
- » System reserves also provided grants (3) to colleges and universities
  - Grants were provided for strategic initiatives totaling ranging from \$25,000 to \$350,000 for a total of \$400,000

# NextGen | Financing NextGen Cash Flow

Projected Cash Flow Needs:

Fiscal Year	Nov 2020 Amount	May 2023 Amount	Fall 2024 Est. Amount
2023	\$8.9M	-----	-----
2024	\$5.6M	\$5.4M	-----
2025	\$16.2M	\$16.2M	-----
2026	\$17.3M	\$17.3M	-----
2027			~\$12-\$15M
2028			~\$12-\$15M
2029-2032			TBD
Total	\$48.0M	\$39.3M	TBD

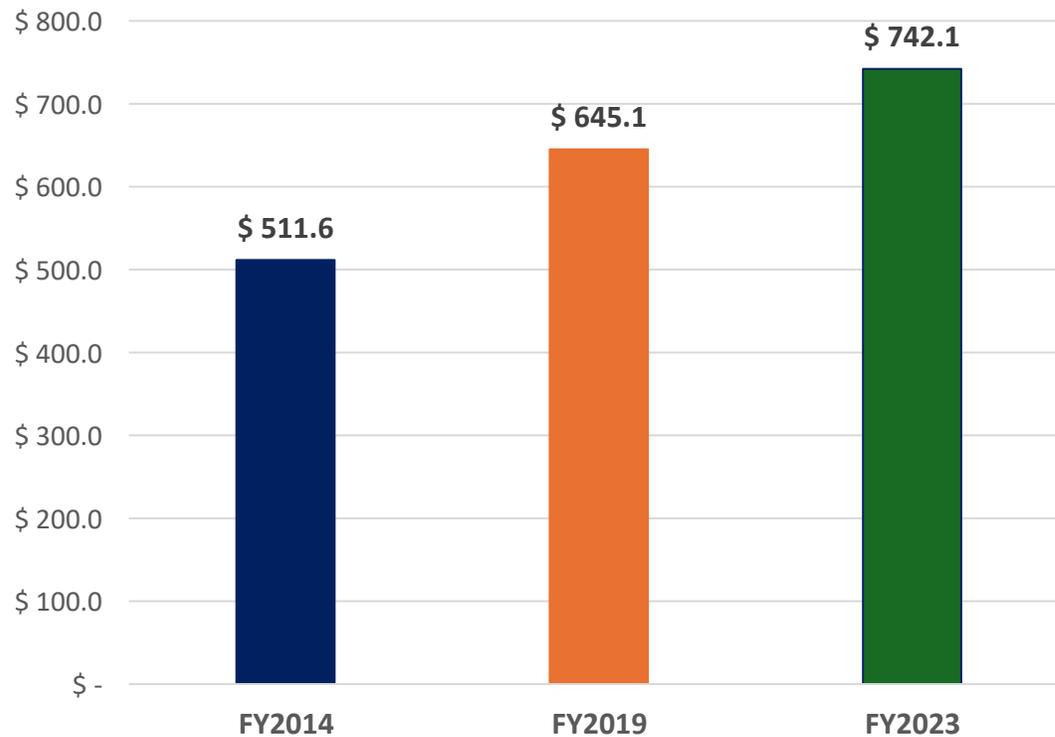
- November 2020 plan for borrowing fund balance:
  - System Office @ \$5.6M
  - 6 institutions @\$3.4M - \$20.4M
  - 10 institutions @\$2.2M - \$22.0M
- Payback of fund balance is part of financing plan and will occur between fiscal year 2027 and 2031

# Impact on College and University Financial Health

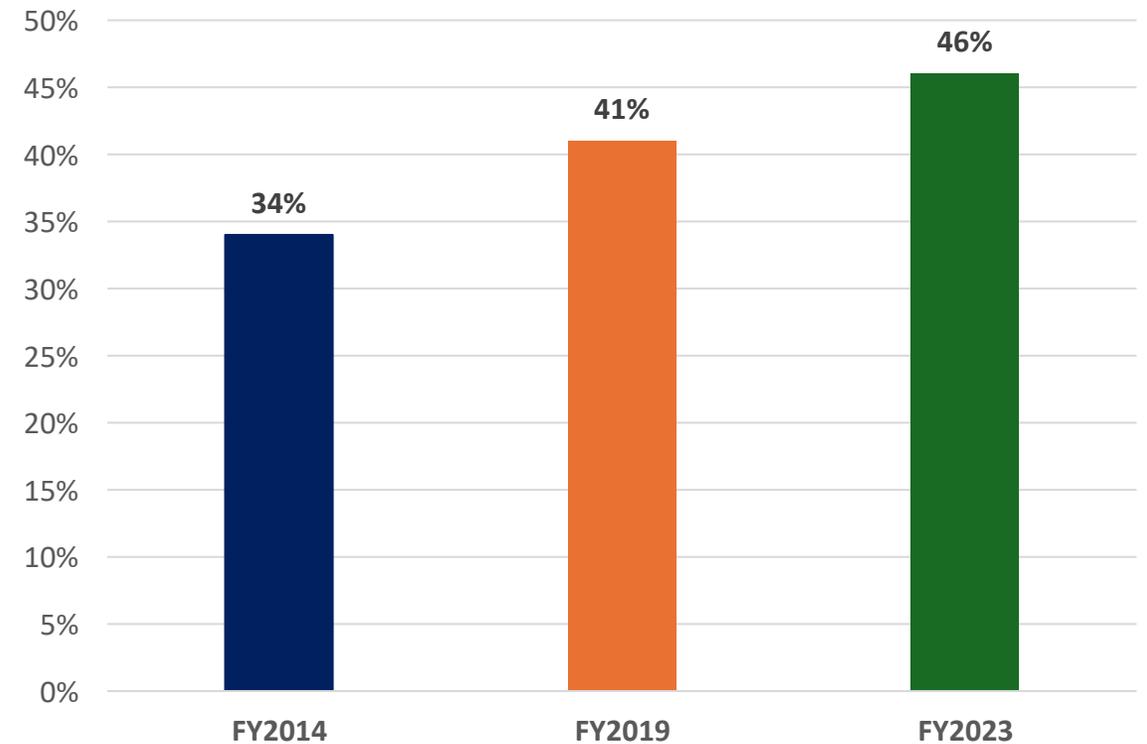
- » For most colleges and universities, reserves are a small portion of fund balance/cash (16% at the system level)
- » Individual colleges and universities initially unable to contribute to the system reserve pool of 5% would “report to the vice chancellor – chief financial officer information on current fiscal conditions with a detailed plan to achieve a minimum level” per Board procedure 5.10.1 Part 4.  
Level of Reserves
- » An investment would use cash from all colleges and university on a pro-rated basis and paid back with interest on a pro-rated basis
- » A larger system reserve pool will provide more opportunities to support college and university emergency needs

# System General Fund Balance FY2014 FY2019 FY2023

Fund Balance  
\$ in millions

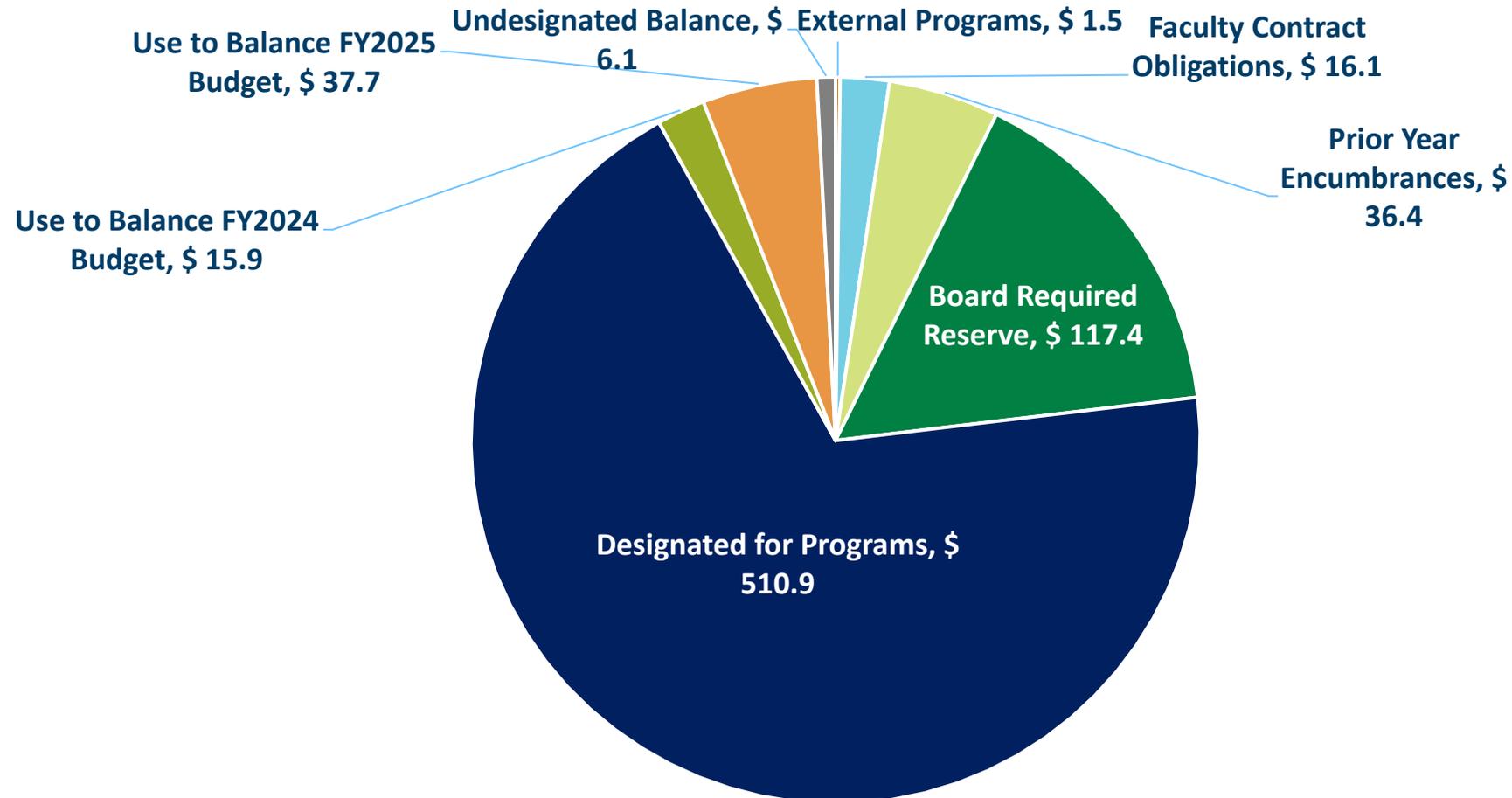


Fund Balance as % of Annual Revenue



# FY2023 Fund Balance Designations

(General Fund) \$ in millions



# Impact on College and University Financial Statements and Composite Financial Index (CFI)

- » Individual colleges and universities financial statements would be minimally impacted by the proposal
  - Current assets will not change
  - The portion of each college and university's share of the system reserve would be reflected as a "due from" the system office rather than cash on the balance sheet
- » Higher Learning Commission's CFI measures will not be impacted by this process

# Discussion

- » Does this proposal address having sufficient financial resources to temporarily support extraordinary or emergency needs of colleges, universities, and the system?
- » Does this proposal unacceptably limit institutional control of their own funds?
- » What other alternatives should be investigated or considered?

# 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
- » November 19-20, 2024 - Board of Trustees first reading
- » January 28-29, 2025- Board of Trustees second reading
- » March 2025 - Implementation of new policy and procedure



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# Board Policy/Procedure 5.10 & 5.10.1 Reserves and Fund Balance

- » Reserves ≠ fund balance: reserves are a portion of total fund balance (16%)
- » FY2023 \$742 million fund balance equates to 46% of general fund revenue
- » Current policy requires colleges and universities to set aside 5%-7% of general fund revenue in reserve and a system level reserve maintained that is up to 2% of the system's annual appropriation
- » Reserves currently at \$103.4 million systemwide or 6% of general fund revenue
- » Board policy/procedure 5.10 & 5.10.1 are coming up for review in October/November 2024