



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: January 29, 2025

TITLE: Proposed Amendment to Board Policy 5.10 Reserves and Year-end Fund Balances Update

Action

Review and Discussion

This item is required by policy

PRESENTER

Bill Maki, Vice Chancellor for Finance and Facilities

PURPOSE

This item provides an update on the process of amending Board Policy 5.10 Reserves and Year-End Balances.

The first reading of the proposed amendment to Board Policy 5.10 Reserves and Year-End Balances was provided at the November 2024 Finance and Facilities Committee meeting. The most meaningful change being proposed is to create an enterprise/systemwide reserve pool by holding currently required college and university reserves centrally with the systemwide reserves. Co-locating the required minimum 5 percent of annual general fund revenues from each college and university would create a loan fund of approximately \$80 million that would be administered by the chancellor.

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.

BACKGROUND INFORMATION

The November 2024 Finance and Facilities Committee discussion during the presentation of the first reading identified several questions along with requests for additional detail traditionally included in the accompanying procedure and operating instructions. Some of the issues identified included:

- Clarification of the purposes of the systemwide reserve pool beyond institutional financial assistance.
- Administration of the loan pool including specific loan terms and reportability to the Leadership Council and the Board of Trustees.
- Where does the risk lie if there are repayment issues on the loan?
- Specific fiscal impact for each college and university on their balance sheet and how interest earned is applied so institutions see no negative impact on their financial health.
- After the initial dedication of college and university reserve funds to this pool, how often will there be adjustments?

Following the November board meeting, further discussion occurred at the December Leadership Council meeting and at the fall system finance conference. The discussion was organized around the following questions:

- What are the benefits of having a systemwide reserve pool?
- What portions of the proposed policy, procedure, and operating instructions need additional clarification?
- What concerns are there of having a systemwide reserve pool? What measures could be taken to alleviate or eliminate those concerns?

The system office Finance division team compiled the information from these discussions and, after consultation with the chancellor and the Board of Trustees Finance and Facilities Committee Chair, determined that it would be in the best interest of moving forward to finalize operating instructions before recommending to the board approval of this policy amendment. The following process was implemented:

December 2024:

- Call for volunteers for CFO work group

January:

- Convene work group to review and modify document (first meeting January 10; second meeting January 16)
- Convene work group to finalize document (third meeting January 23)
- Legal and Policy review prior to posting (week of January 27)

February:

- Second posting of policy, procedure, and operating instructions for 30 days (January 30 through February 28)
- Further consultation with Leadership Council and CFOs
- Further consultation at statewide meet and confers

March:

- Finalize policy, procedure, and operating instructions for 2nd Reading at the March 2025 Board meeting.