BOARD OF REGENTS POLICY:
Central Reserves Fund

SECTION I. DEFINITION.

The central reserves fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account within the University's financial system. The primary revenue sources of the central reserves fund include the following: investment earnings and realized and unrealized gains or losses in market values from the Temporary Investment Pool (TIP); funds invested in the Consolidated Endowment Fund from TIP; other miscellaneous revenues; and legal settlements.

The purpose of the central reserves fund is to insulate the University from potential major financial risks, including:

- unanticipated or uninsured catastrophic events;
- temporary institutional revenue declines or expenditure gaps;
- unforeseen legal obligations and costs;
- failures in central infrastructure; or
- failures of major business systems.

SECTION II. BUDGETING.

Subd. 1. Budget Planning.
A central reserves budget is prepared annually and submitted to the Board of Regents (Board) for approval as part of the president's recommended Annual Operating Budget.

Subd.2. Allowable Allocations.
As part of the Annual Operating Budget, the central reserves fund may be allocated for:

(a) expenses that are fixed term in nature (usually 3 years or less);
(b) transfers to other centrally allocated funds to support expenditures that should be funded from sources other than tuition or state appropriations;
(c) a general contingency for unplanned or unexpected financial needs that routinely arise during the fiscal year; or
(d) other various miscellaneous expenditures as determined by the president and approved by the Board.

Subd. 3. Board Approval.
Board approval is required for any modifications to the central reserves budget and for all expenditures from the central reserves general contingency account of $250,000 or more. Expenditures from the general contingency account of less than $250,000 shall be approved by the president or delegate and reported at the next regular meeting of the Board

SECTION III. SIZE OF RESERVES.

An appropriate central reserves fund maintains financial strength and high bond ratings, protects the University from interest expense volatility, and allows flexibility in the use of variable rate debt to lower or control interest costs.

Under normal circumstances, the central reserves fund should not fall below 4.0% of state appropriations, or $25,000,000, whichever is greater, unless such reduction is part of a short-term financing plan that includes restoration of the central reserves fund balance within two to three years. However, determining the appropriate level of the central reserves fund requires judgment and consideration of a variety of factors, including, among others, the following:

- the condition of the Minnesota and federal economies;
- the political climate towards higher education;
- the volatility of University revenues and expenditures;
- the size and composition of University debt; and
- the composition of investments in TIP.

SECTION IV. REPORTING.

A projected central reserves fund year-end balance and a central reserves fund report shall be presented annually to the Board as part of the Annual Operating Budget.

REVISION HISTORY

Adopted: June 10, 1988
Amended: March 10, 1989; March 12, 1993; October 11, 2002; May 14, 2004; June 9, 2006; February 11, 2022
Technical Correction: August 21, 2013; March 16, 2021