B. **Finance, Audit, and Infrastructure Committee**

Mr. Fitzpatrick, chair, will report on the committee meeting on January 19, 2018
Finance, Audit and Infrastructure Committee  
Meeting of January 19, 2018

Minutes

Present:  D. Fecher, S. Fitzpatrick, S. Green, B. Langos, J. Large Kingsley, A. Rains, G. Ramos


Chair’s Comments

Mr. Fitzpatrick, committee chair, called the meeting to order at 8:09 a.m., read the Conflict of Interest Statement, and reviewed the agenda for the meeting.

Vice President’s Comments

Mr. Walt Branson, vice president for Finance and Operations and chief business officer, shared data on the marginal contribution per credit hour for various undergraduate and graduate course levels. One of the problems with this finance model happens when there is erosion of support generated by lower level courses that is needed to offset expenses for higher level courses. Students utilizing community colleges or the College Credit Plus program to complete their first two years of coursework are contributing to a decline in lower level base support. This decrease in base support provided by lower level courses will be a factor in planning the FY 2019 budget.

Trustee Langos started a discussion on enrollment and its importance to revenue and sustainability. According to published reports, Miami, the University of Dayton and Sinclair Community College showed enrollment growth whereas Wright State’s enrollment was down. Questions were raised about factors influencing enrollment decline, “what is the scope of the problem?” and “how quickly can it be addressed:” A request was made to move the Academic Affairs and Enrollment committee meeting to directly after the Finance, Audit and Infrastructure meeting to allow carryover questions between committees. The committee also plans to include marketing at the next Academic Affairs and Enrollment meeting to understand their perspective on these issues.

Calendar Year 2017 Annual Investment Performance

Mr. J.P. Cavaliere, SEI investment advisor, presented the 2017 Annual Investment Performance report for Wright State. The objective for the last year was to maintain liquidity and shift the portfolio to more risk adverse investments. The market value at the end of the year was $44.5 million. The combined total assets fiscal year to date return was 2.0% net of fees and the one-year return was 4.4% net of fees as of the end of the calendar year.
The committee discussed the private equity funds and fee structures and indicated that future contributions would go into cash or liquid maturities of less than a year to build up a “rainy day fund” before other investments were considered.

**Investment Policy Statement**

Mr. Branson presented a draft Investment Policy Statement for the Finance, Audit and Infrastructure Committee’s consideration. The draft policy was created 8 months ago based on best practice research performed by graduate students in Dr. Fall Ainina’s Finance course.

Mr. Steve Sherbet, university bursar and director of treasury services, outlined the proposed changes to the policy which include updates to reflect a name change for the Finance, Audit and Infrastructure Committee and additional definition/assignment of fiduciary responsibilities and roles for the committee, trustees and others. Three “categories” of investment funds were defined; namely cash, reserve pool and a strategic investment pool. Language written into the policy will direct funding of the cash and reserve pools first, and to a level significant enough to provide a University reserve of 3-6 months prior to allowing any strategic investment activity.

A discussion ensued around defining “maximizing long term investment objective” and how this equates to risk. The committee made safety their first priority followed by liquidity and decided to use a factor of 25% of the annualized restricted and unrestricted operating budget to define the contribution to cash and the same percentage for the reserve pool. This strategy would produce about $100 million in each pool for a combined 6-month University “rainy day” fund. Future strategic investments should be bonds, treasuries or AAA corporate bonds to preserve and maintain capital. Current private equity funds would be grandfathered in due to their illiquid status but policy would not permit this type of future investment.

Mr. Sherbet indicated that the suggested changes would be made and a second draft brought to the committee in the spring for review.

When asked, Dr. Travis Doom, faculty president, indicated that there is no concern on the part of faculty for implementing a conservative investment policy.

**Monthly Financial Performance Reporting**

Mr. Branson, gave a high-level briefing on enrollment compared to expenses. Spring enrollment, projected to be down 5%, is down 8.3% compared to this time last year. This amounts to a $2 million impact which was offset somewhat by an additional allocation of $400 thousand in State Share of Instruction. The total impact then becomes a $1.6 million loss in revenue.

Expenditures for compensation, while expected to be down, are tracking close to actual budget due to higher than anticipated medical claims with a projected budget impact of
$2 to $3 million. There was a discussion about performing risk assessments and holding reserves on the balance sheet to offset unexpected circumstances.

The committee expressed frustration with continual budget “surprises” and the ongoing need to reforecast. They asked for risk assessments and creation of accruals on a monthly basis to cover deficiencies before they become a year-end problem. For the shortfall in enrollment and the additional expenditures in medical claims, a projection of $800 thousand a month will be needed to mitigate the deficit.

Trustee Langos asked for P/L information for each college and unit. Wright State utilizes a central approach to revenue collection and allocates defined expense budgets to the colleges/units they must adhere to. A question was raised about how colleges/units know if their revenues are sufficient to carry their operations. Dr. Sudkamp indicated that there is data by program and college comparing revenue to expenses and this data also offers cost per student and cost per FTE.

Higher education accounting and budget tracking is different than a typical business model. This makes it challenging to track effectiveness, “profitability” of programs/colleges, and where efforts should be concentrated to attract students and where programs should be discontinued. Carried further, it makes it difficult for the Trustees to have information to help guide decisions on priorities as to what programs should be supported despite loss, what should be augmented for growth, and what should be modified or discontinued to allow for future expansion, and where opportunities are to be innovative.

Trustee Fecher suggested holding a Financial Workshop as an opportunity to show the Trustees what reporting mechanisms and data are available. Knowing what is available could help it can be better utilized, define what reports may be developed to standardize tracking, and how the Board can use data for financial sustainability and proactive decision making.

Dr. Schrader highlighted several efforts taking place across the university. The first is the Strategic Planning Process which will help define University priorities and develop a path to long term financial stability. The second is a Program Efficiency Review that will be done concurrently with the strategic plan. This review will encompass academic and non-academic programs and provide data for program comparison to national and peer benchmarks. It will help identify how programs rely on each other, where efficiencies are being met, where revenues should be redirected to better align with priorities and where programs should be developed or enhanced. These are the types of projects being done over the next year that will help Wright State make better decisions about revenues, enrollments, expenses and opportunities.

Trustee Fitzpatrick offered a summary of the progress Wright State has made over the last year to instill accountability and transparency. Revenue understanding and revenue attainment still remain challenging. Trustee Langos reiterated that the Trustees, colleges, and the leadership team must have accountability around their budgets and that
“surprises” and reforecasting have to stop. Employees of the university can no longer bear the brunt of budget reductions.

Last year, the University had a $25 million deficit and this year is on track to produce a $6 million surplus. While it has been a challenging time, Mr. Fecher acknowledged the efforts of everyone and congratulated the university on the progress made. However, there is still six months to the end of the budget year and it is important to adhere to the savings plan while continuing to identify additional savings to realize this surplus. Mr. Fitzpatrick indicated that revenue collection is over for FY18 so expense control and getting a strong Summer enrollment in place remain the challenges.

Dr. Doom cautioned the committee and the Board to encourage the colleges to make their decisions under a spirit of cooperation and support, not under competition. Students may be harmed when decisions result from competition and not from an overall University effort for what is best for everyone.

The Responsibility Centered Management model of budgeting assigns revenues generated by each area and are retained by them to cover expenses. The drawback with this model is it promotes competition for resources and discourages sharing and cooperation. This “us against them” mentality is why Dr. Schrader does not favor its implementation and encouraged everyone to remain focused on working together.

The meeting was running significantly behind schedule so the Committee decided to review contracts and distribute the Board's Financial Governance Policy report to the members for personal review.

1. **Approval of Expenditures over $500,000**

Mr. Jeff Ulliman, vice president for finance and CFO, indicated that a settlement had been reached with the U.S. Department of Education over their Program Review for FY 14 and FY15. The settlement of $1,982,562 was sent to the Department of Education in December per the terms of the agreement.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Description of Services</th>
<th>Current Contract Amount</th>
<th>Previous Contract Amount</th>
<th>Term of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Dept. of Education</td>
<td>Settlement</td>
<td>$1,982,562</td>
<td>N/A</td>
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</tbody>
</table>

Mr. Fecher moved and Mr. Fitzpatrick seconded the motion to present the following resolution to the full Board for approval of the above expenditure.

**RESOLUTION 18-**

WHEREAS, in order for the University to conduct business on an on-going basis, and provide products and services in a timely manner, purchases must be made; and
WHEREAS, these expenditures may exceed $500,000; therefore, be it

RESOLVED that authorization is granted for the Accompanying contracts now before the Board of Trustees be, and hereby are approved.

I offer this Motion:
Is there a Second:
Roll Call Vote:

- **Contracts between $150,000 and $250,000**

  Mr. Ulliman presented the following expenditure to the Finance, Audit and Infrastructure Committee for review. No action was required.

<table>
<thead>
<tr>
<th>Vendor</th>
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<th>Current Contract Amount</th>
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<th>Term of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEEE Spectrum</td>
<td>Library Subscription</td>
<td>$153,845</td>
<td>$147,000</td>
<td>1/1/18 – 12/31/18</td>
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**Executive Session**

Mr. Fitzpatrick moved that the Finance, Audit, and Infrastructure committee enter into Executive Session to consider compensation matters and to discuss the purchase or sale of real estate. Mr. Fecher seconded the motion.

In accordance with amendments to the Ohio Open Meetings Law, the committee, after a majority of a quorum and by roll call vote, determined to hold an Executive Session by offering the following resolution:

**RESOLUTION 18-28**

RESOLVED, that the Finance, Audit and Infrastructure Committee of the Wright State University Board of Trustees agreed to hold a Special Executive Session on Friday, January 19, 2018; and be it further

RESOLVED, that pursuant to the Ohio Revised Code 121.22 (G), the following issues may be discussed in Executive Session:

- To consider compensation: ORC 121.22 (G0)(1)
- Purchase or sale of real estate

Mr. Fitzpatrick moved for approval. Ms. Ramos seconded, and the motion was unanimously approved by the committee.
The Committee moved to the Double Bowler Conference room for Executive Session at 10:16 a.m.

The Committee returned to their meeting at 11:15 a.m. and presented the following resolution.

2. **Furlough Leave Policy**

Mr. Fitzpatrick read the following resolution and Mr. Fitzpatrick and Mr. Fecher recommended bringing it to the Full Board for approval.

**Furlough Leave Policy Adoption**

**RESOLUTION 18-**

WHEREAS, section 371.70.20 of Amended Substitute House Bill No. 1, effective July 17, 2009 revises Ohio’s civil service laws;

WHEREAS, Substitute H.B. No. 1 authorizes the board of trustees of any state institution of higher education, to adopt a policy providing for mandatory furloughs of employees, including faculty;

WHEREAS, Wright State University, through its Board of Trustees, granted the President or his/her designee(s) the authority to adopt and implement new and revised policies and procedures in accordance with Ohio Revised Code 111.15 and H.B. 187 on February 1, 2008; and

WHEREAS, Wright State University’s administration, aspires to implement policies and procedures which provide a greater degree of flexibility when responding to significant fluctuations in the University’s operating budget.

THEREFORE, BE IT RESOLVED THAT:

Notwithstanding any rule of the institution to the contrary, the Board of Trustees may adopt a policy providing for mandatory furloughs of employees, consistent with existing collective bargaining agreements, and, including non-bargaining unit faculty and non-bargaining unit staff, to achieve spending reductions necessitated by financial exigency, natural disasters, catastrophes and/or civil disturbance.

I offer this Motion:
Is there a Second:
Roll Call Vote:

The meeting adjourned at 11:25 a.m.
Respectfully submitted by
Deborah Kimpton