

**Finance, Audit and Infrastructure Committee  
Meeting of February 23, 2018**

**Minutes**

**Present:** D. Fecher, S. Fitzpatrick, S. Green

**Guests:** C. Bajek, W. Branson, L. Chan, P. Cheng, J. Conley, T. Doom, C. Gremling, T. Heigel, J. Hensley, D. Kimpton, D. Krane, N. Lasky, G. Sample, S. Sherbet, A. Tipton, R. Thompson, J. Ulliman

**Chair's Comments**

Mr. Fitzpatrick, committee chair, called the meeting to order at 9:00 a.m., read the Conflict of Interest Statement, and reviewed the agenda for the meeting. He remarked that he was "pleased with the progress that we have made as a University in the area of finances. We have come a long way in terms of balancing the budget and improving transparency and I am grateful for the team and all the work that they have done in that area. We are not where we need to be. We need to continue to push forward. We've got no rainy-day fund. We've got a budget that is precariously balanced but any significant movement in the wrong direction could negatively impact us, so while I am pleased with the progress that we've made, we still have a lot of work to do which is why we're here today."

**Vice President's Comments**

Mr. Walt Branson, vice president for Finance and Operations and chief business officer, reported that the University is past the mid-year point with its fiscal year which is an important mark in determining total enrollment and expenditure levels for the year. Work began in December and planning is underway for the preparation of the FY 2018-2019 budget.

**Capital Projects/Construction Update**

Mr. Greg Sample, chief real estate and facilities officer, introduced Mr. Rob Thompson, university architect and Mr. Javan Conley, construction administrator, and asked them to provide an update on Wright State's current and future construction projects.

Projects of note include the classroom modernization project and the Lake Campus extension project. An upgrade and enhancement of the fine art sculpture studio and complete renovation of two chemistry labs make up the classroom modernization project. The Lake Campus extension eliminates the library trailer in favor of permanent library space and provides a nursing skills lab, science education space, and renovations to classrooms.

Capital projects currently on the books total \$34 million and will be paid for with state or local funding. No construction project will begin unless 100% of the funding needed has been identified.

Wright State received \$13.5 million from the state for 2019-2020 capital projects. Funds received will address deferred maintenance and critical safety needs. Projects include elevator repairs, fire alarm upgrades, paving, roof and tunnel repairs.

The committee congratulated the Facilities Management and Services (FMS) design and construction team which included Mr. Conley, Mr. Thompson, Ms. Angie Tipton (budget and project manager), and Mr. Chris Gremling (senior project engineer) for delivering the Lake Campus Agriculture and Water Quality Education Center project ahead of schedule and under budget. Strong oversight and avoiding cost over-runs has been established as Wright State's model for construction projects and this project was indicative of that success.

### **Annual Metrics Reporting per the Financial Governance Policy**

Ms. Tina Heigel, university controller, briefed the committee on Wright State's 5-year financial performance trends, primary and secondary financial indicators, and provided a revenue and spending analysis.

The Financial Governance Policy was put into place in 2017 and emphasizes the importance of maintaining a strong financial position and available resources to meet the University's mission. One of the primary metrics of financial health required under this policy is the Composite Financial Index (CFI). The CFI is made up of the four ratios listed below.

The "Primary Reserve Ratio" tracks whether resources are sufficient and flexible enough to support the mission. The target is .4 which indicates that an institution has sufficient reserves to cover approximately 5 months of expenses. Wright State's ratio is .22 or about 3 months of covered expenses.

The "Return on Net Assets Ratio" is an indicator of sustainability for the University and accounts for 20% of the CFI score. The net losses recorded in FY15, FY16 and FY17 account for a negative ratio. In the private sector, the return on net assets ratio would be the equivalent of a profitability ratio. What this means is the University has expenses that exceed the revenue.

The "Viability Ratio" measures the availability of expendable net assets to cover debt should the institution need to settle its obligations. The target here is 1.25. Wright State's ratio of 1.10 has been impacted by the steady decrease in expendable net assets over the last few years. However, Wright State's debt is low, especially in comparison to other institutions, and is decreasing yearly. There are no plans in the foreseeable future to assume more debt.

The final ratio in the CFI is the "Net Operating Revenue Ratio" which indicates whether the institution is living within its available resources. The target is .02 to .04 which means

the University plans to add 2-4% of the yearly revenue to the expendable net assets to create and maintain a surplus. Overspending for the last three years has prevented this from happening.

CFI composite scores are reported yearly to the Higher Learning Commission (HLC) as part of the University's accreditation process. Any score below a 1.0 will trigger a "letter of concern" from the Commission. Should it happen again for the second year, the HLC will ask for additional financial reporting and institute a review panel to examine the financial condition of the institution. Wright State has received a letter of concern for FY16 and anticipates a score of .40 for FY17 which would trigger a panel review. The panel is expected to request a financial plan for remedy of the situation and HLC will continue monitoring.

Ms. Heigel reviewed other reporting measures required by the Financial Governance Policy. These include a measure of Liquidity, the Cash Flow Ratio, the Debt Burden, Debt Coverage and the Leverage Ratio. Having these measures strengthen the Board's understanding of Wright State's financial position and are also components of external measures by which Wright State is rated such as Moody's, the Senate Bill 6 score, and the HCL.

The "Age of Facilities" metric is a measure of resources available to address deferred maintenance. The target is 10 years or less. Wright State's score has been climbing over the last five years and is currently 15.69 years which is indicative of increasing deferred maintenance.

For "Financial Aid" reporting, the metric tracks the total amount of scholarships and awards given to students divided by the gross tuition and fees the University receives. A second metric looks at what percentage of this tuition discount is funded by University dollars as opposed to external funding such as student federal and state loans or grants.

Tuition discounting started a discussion about the impact of discounting when tuition is already affordable and about how to target tuition support to students who would not be able to attend Wright State without it.

Dr. Dan Krane, representing Faculty Senate, suggested using a three-pronged approach with all the metrics. The prongs would include following five-year trends, using metrics as a Board established benchmark, and including outside institution's metrics as industry standards for comparison against peer or aspirational institutions.

New to the metrics is the "Fichtenbaum-Bunsis (FB) score. The FB composite score is similar to the Senate Bill 6 (SB6) score in that it includes Viability Ratio, Primary Reserve Ratio, and Net Asset Ratio. The difference between FB and SB6 comes with the inclusion of a Cash Flow Ratio in the FB score and a different weighting among the components. With the addition of the Cash Flow ratio, FB had Wright State falling below a 1.75 (threshold for Fiscal Watch) in FY16 where-as the SB6 ratio was still at a 2.10.

Ms. Heigel reviewed "Financial Resources to Debt", "Financial Resources per Student" and the "Operating Margin". As in other areas reported, these metrics were also affected

by the decrease in unrestricted net assets. Enrollment applications and yield ratios are being tracked in “Other Performance Measures” being reported.

A 5-year revenue analysis was offered that showed “tuition/fees” and “state appropriations” are the largest sources of revenue and together account for support of 67% of operations.

The Committee received a 5-year categorized “Spending Analysis” from Institutional Research captured in total dollars per area and in dollars per FTE (student full time equivalent). They also viewed a graphic representation of the same data. The largest allocation of spending was in support of “instruction” and “academic support” followed by “institutional support” and “research and sponsored programs”.

Trustee Fecher shared data identifying the compound annual growth rates for each category he had performed on the audited financial data presented in the Spending Analysis. His results showed a trend since FY13 for increasing support for “Instruction”. Instruction was the only category to show growth in FY17 despite decreases in enrollment.

The committee is requesting a deeper understanding, breakout, and analysis of what makes up the categories, what are the effects over time (enrollment shifts, revenue shifts, trends in higher education), and benchmarking comparisons against peer institutions. Prioritizing the academic mission of the institution, the Board would like to be able to use analysis and data to support decision making for meeting this mission.

Mr. Fecher remarked that “Wright State is not where we need to be financially, but the progress we’ve made in our systems, our analysis and the data we have; and if you take a look in a few minutes, the way our cash position has changed, our cash position is higher now than it was at this time last year. We have a budget that is very tenuously balanced, but it is balanced. This narrative that the news is bad...we’re not where we need to be but it is a completely stronger position than it was last year even though we still don’t have the reserves we need and we’re still not out of the woods. We have to be able to afford what we do.

“I just hope that we can come together as a community and realize that when we talk about this stuff, it’s in a way, good news. I’m just getting a little frustrated and tired with the bad news because we’ve made a lot of progress and I wish people would recognize that. We are not where we need to be but we’ve come a long way.”

### **Monthly Financial Performance Reporting**

Mr. Branson, vice president for Finance and Operations and chief business officer, offered a summary of Wright States budget position. In reviewing the Budget Report, compensation is showing the positive impact gained from position vacancies derived from the Voluntary Reduction Incentive Plan (VRIP). Prior to January, savings were reduced by payments for earned vacation and sick leave. Currently the savings are tracking in the \$5 million range against budget.

Budget reforecasts have been made to keep the University on track to add \$6 million to unrestricted net assets at the end of the fiscal year and projections against expenses look favorable.

Other reports were sent to the Committee for review (and posted on the website) prior to the meeting. There were no questions in relation to these reports.

Mr. Jerry Hensley, Unclassified Staff Advisory Council representative, requested a 5-year lookback listing all positions by types as a way for the Board to evaluate the strategic impact on specific areas or position types derived from the VRIP and involuntary position reductions.

### **Approval of Expenditures over \$500,000**

The following contracts were before the committee for their review and a motion by Mr. Fitzpatrick and seconded by Mr. Fecher have brought them to the full Board for approval today.

<b>Vendor</b>	<b>Description of Services</b>	<b>Current Contract Amount</b>	<b>Previous Contract Amount</b>	<b>Term of Contract</b>
TBD	Electricity Generation Service	\$2,800,000	\$2,525,683	5/1/18-6/30/19
Anthem	Medical and Prescription Insurance	\$31,100,000	\$17,355,091	1/1/18-12/31/18

### **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:

**Approval of Expenditures \$250,000 and \$499,999**

Mr. Fitzpatrick and Mr. Fecher reviewed the following expenditure. The Finance, Audit and Infrastructure Committee lacked a majority present to approve the resolution so it is before the Board today for approval.

<b><u>Vendor</u></b>	<b><u>Description of Services</u></b>	<b><u>Current Contract Amount</u></b>	<b><u>Previous Contract Amount</u></b>	<b><u>Term of Contract</u></b>
Interstate Gas Supply Inc.	Electricity Generation Service	\$450,000	N/A	3/1/18-4/30/18

**Contracts for Finance, Audit, and Infrastructure Committee  
Approval Between \$250,000 and \$500,000**

**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 amount to greater than \$250,000 and less than \$500,000; therefore, be it

RESOLVED that authorization is granted for the accompanying contracts now before the Finance, Audit, and Infrastructure Committee of 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.

<b>Vendor</b>	<b>Description of Services</b>	<b>Current Contract Amount</b>	<b>Previous Contract Amount</b>	<b>Term of Contract</b>
Buckeye Educational Systems	Equipment for Dayton STEM School	\$150,008	N/A	N/A

The meeting adjourned at 10:37 a.m.

Respectfully submitted by  
Deborah Kimpton