

**Finance Committee
Meeting of May 19, 2017**

Minutes

Present: E. Broner, D. Fecher, A. Goyal, C.D. Moore, G. Ramos
Guests: F. Ainina, L. August, C. Bajek, R. Cannon, L. Chan, P. Cheng, T. Doom,
V. Gopal, T. Heigel, D. Kimpton, N. Lasky, C. Pierce, K. Ralston, S.
Sherbet, T. Sudkamp, R. Sweeney, J. Ulliman

Mr. Fecher called the meeting to order at 9:00 a.m. in the first floor Gallery Space of the 2455 Presidential Drive building.

Conflict of Interest Statement

Mr. Fecher read the following statement and asked the Trustees if there were any known conflicts with today's agenda. None were reported.

It is of the utmost importance to ensure that all university decisions are free from any real or perceived conflicts of interest. Therefore, please be mindful of all obligations with which you have been charged as a Trustee of Wright State University; and take the steps you deem appropriate to perform your duties fairly and impartially.

Committee Chair Comments

Mr. Fecher welcomed everyone and shared the following comments.

You all know it has been a busy year for this committee and a consequential one as we work to return Wright State University to sound fiscal practice. Of course, we have no more important duty as a committee of the Wright State Board to insure that it operates in a fiscally sound manner as we pursue our primary mission of providing a world-class education to our students. This has been a year of change for the Finance Committee as we have revised our methods to improve and strengthen the Board's financial oversight of the University.

Here is a few of the changes we have made to strengthen our oversight responsibilities. We have increased our meeting schedule from four meetings a year to nine meetings a year. We have developed a new Financial Governance Policy with input from the University community, which we have submitted to the Board of Trustees for approval on June 8. We began the process for reviewing, and perhaps revising, the Universities' Investment Policy Statement with the help of talented Wright State University graduate students under the direction of Dr. Ainina and will hear from them a little later this morning. Most importantly, we have committed to a more transparent and thorough budget process, which we continue today, as we see a more detailed financial plan for 2018. We also intend to implement a comment period on the budget to gather feedback into the draft budget that we will discuss today prior to the June 8th Budget Workshop.

Today's agenda includes several routine Finance Committee items that we will get out of the way first. These include an updated review of the cash position, update review of the budget performance for the current fiscal year, updated review of investment performance, and routine review of contracts over \$250,000 and over \$500,000. We will hear a presentation from our graduate student group on the University's Investment Policy Statement and then we will review a presentation on the Draft Budget for 2018. Of course, it is the last item that will receive the most attention today, as it should.

We are now all aware of the precarious financial position we find ourselves in with year-end reserve projections of just \$29 million dollars. As an aside, I will note that this projection is \$3 million better than it was just a few weeks ago. This is early confirmation that the University's austerity measures are beginning to have a positive effect. In any event, our current situation has accumulated after years of impractical budgets and egregious spending of available resources. As we have discussed in this committee many times, we simply have no choice but to adopt a responsible, balanced budget that we can begin to rebuild the University reserves.

If we fail to do so, the consequences will be severe and likely include falling under Fiscal Watch by the State of Ohio. Many ask what happens should the University deplete their reserves and run out of money and the answer is not comforting. If the University were to run out of money, the Governor will have no choice but to appoint a conservator to take over the financial operation of the University. If this occurs, we will lose our opportunity to be a self-governing institution and leave it up to outsiders to make the hard decisions that we should be making ourselves. We simply cannot afford to let that happen and I can say here, we will not let that happen.

So I will say again, as we consider the serious and unfortunate budget decisions required of this University in order to remain financially solvent, the budget we will ultimately pass will not be a popular one. We still must work together to solve our own problems. I do not expect the budget we pass will be celebrated by anyone on this campus. There will be no shortage of disagreements with many of the budget choices that we end up having to make. I also recognize that others in our place may act differently than we would as the Board of Trustees. In the end, it is we as the Board of Trustees who are ultimately responsible for the solvency of this institution and we must make the best decisions we can on behalf of our students, our faculty, our staff, and indeed, all of our stakeholders.

I urge again as we take up this difficult task that all of us continue working respectfully together, and with each other, even as we carry on the debate about University priorities and the best way to fund them. In the end, I firmly believe that Wright State University will emerge from this crisis as a stronger institution and that we will soon return to pursuing our highest aspirations as an institution of higher learning. I hope you will all join me in that confidence.

Approval of Contracts \$500,000 and Above

Mr. Keith Ralston, associate vice president, Finance and Business Operations, presented

the following contract and answered Board questions. A motion was made and seconded to move this contract to the full Board for consideration on June 8, 2017.

<u>Vendor</u>	<u>Description of Services</u>	<u>Current Contract Amount</u>	<u>Previous Contract Amount</u>	<u>Term of Contract</u>
IATSE Int'l Alliance Theatrical	Professional Services for the Nutter Center	\$520,000	N/A	7/1/16 – 6/30/17

RESOLUTION 17-

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:

Review of Contracts \$250,000 to \$499,999

Contracts between \$250,000 and \$499,999 do not require full Board approval. Mr. Ralston presented the following contract to the Finance Committee for their review. No action was required.

<u>Vendor</u>	<u>Description of Services</u>	<u>P.O. Amount</u>
Western Ohio Educational Foundation	Residence & Housing	\$345,730

Investment Report

Mr. Steve Sherbet, university bursar and director of treasury services, reported on the investment reports for the month of April 2017. The March return was just over \$87,000 and the April return was almost \$300,000 contributing to a Year-to-Date return on investments of \$3.3 million. This equated to a Year-to-Date return of 6.21% against a benchmark of 4.71%. The portfolio, even though it has decreased over time, has performed well this fiscal year.

Investment Policy Statement Presentation

Dr. Fall Ainina, professor of Finance, served as the advisor to a group of graduate students charged to review nation-wide university investment policies and best practices and present a report of their findings and recommendations to the Finance Committee.

Dr. Ainina introduced each of the MBA students, which included Mr. Lance August, Mr. Robert Cannon, Mr. Vignesh Gopal, and Ms. Collen Pierce. Mr. Lyle Williams also participated in the project but was unable to present. Dr. Ainina thanked Mr. Fecher for including faculty, staff representation in the Finance Committee meetings, and extended his appreciation to Mr. Sherbet, Ms. Heigel, Mr. Ralston, Mr. Borowy and Mr. Tom Mangan for their support of the student's efforts.

The goal of the project was to develop a long term Investment Policy Statement designed to support Wright State's Financial Governance Policy in providing operating capital and reserves through sound investment principles. Mr. Cannon addressed this goal and outlined the IPS objectives, which included safety (capital preservation over income generation), liquidity, and the highest possible return on investment.

Mr. August further outlined the Universities Investment Pools, which are made up of the cash pool, reserve pool, and the strategic investment pool. He defined their use and outlined the responsibilities of the Board of Trustees, the Finance Committee of the Board of Trustees, the Wright State Treasury Management, and the Fiduciary Manager.

Mr. Gopal outlined the target balance and guidelines for each of the investment pools and the sequence of when they should be introduced into the portfolio.

Ms. Pierce discussed control procedures, which suggested quarterly meetings between the Fiduciary Manager and Wright State's Treasury Management team and monthly reporting.

The student's recommendations included redefining the Investment Pools for alignment with the Strategic Investment goal and the Financial Governance Policy, more Board oversight, better definition of duties and responsibilities, tighter controls and reporting requirements, and more liquidity protection with less volatility.

Mr. Fecher indicated that the draft Investment Policy Statement would be shared with the campus community for comments and then brought back to the Finance Committee for review, and lastly, final submission to the full Board for approval.

Financial Performance Measurement and Reporting

Mr. Jeff Ulliman reviewed the cash flow forecast and revenue reports for April.

- **Budget versus Actual Report:**

The overall trends of the Budget versus Actual report were the same as noted in previous months; namely, negative variances in enrollment, a small uptick in SSI, some minimal positive experience with the investment portfolio and some rather significant negative revenue variance in unrealized Debate revenue. Overall, Wright State experienced about a \$12.5 million-dollar negative variance from expected at the beginning of the year due to a decrease in enrollment and loss of the Debate revenue.

On the expense side, this late in the year gives a truer picture on the \$15.6 million in use of reserves and where spending is occurring. Overall, expenses are about \$2 million in negative variance relative to expectations at the beginning of the year. Components of this variance include the VRIP (Voluntary Retirement Incentive Plan) which had a net embedded cost of about \$10 million, and some additional professional services expense. Overall, we have a \$14.5 million negative variance from expectations at the beginning of the year. Added to the \$15.6 million in planned use of reserves, this equates to about a \$30 million dollar "income statement loss". The confidence factor is high that these projections will be relatively accurate for year end.

- **Cash Flow Forecast**

On the expense side, there is a couple of million-dollar improvement from two months ago, keeping in mind that this is a cash projection. The projection for student payments and other receipts went down about \$700 hundred thousand because summer enrollment is down. This is the only change from previous reporting.

On the outflow side, the benefit related expenses have decreased about \$400 hundred thousand due to an overall decrease in health care claims. The operations related line has decreased significantly. This is where we see the most improvement to date with the projection down about \$1.8 million since February due to our austerity measures. That is a significant improvement. The construction line decreased that about \$700,000 with smaller projects deferred or modified. The February projection was for a \$40 million net outflow with the current projection at \$38 million in net outflow.

Mr. Fecher clarified the purposes of the two different analyses. The budget versus actual is a profit/loss statement (which may or may not be cash) and says we overspent our revenue by \$30 million. Our cash flow report shows the reduction in our cash position (or in this case reserves) of \$38 million. Based on today's report, projections are we will finish the year with \$31 million in reserves compared to February's projection of \$29 million. The effects of our austerity measures are starting to be apparent and this is good news.

2018 Budget Realignment

Dr. McCray, interim president for Wright State, offered his support of the efforts being shown by the Board to manage their financial situation and remarked that compared to his January assessment of an institution deeply in need of governance, Wright State now has a Board that is engaged and has a hold of their finances.

Mr. Ulliman presented a historical review of the budget remediation process that has taken place. A little over a year ago, the plan was to reduce overspending with a target of \$28 million (\$20M in expenses and \$8M in attrition) which included the elimination of 23 positions. This reduction was to have been phased in with 2/3 in FY17 and the remaining 1/3 in FY18. However, other factors interceded which included the Voluntary Retirement Incentive Plan (VRIP), a reduction of \$10 million in international enrollment, the loss of the Debate and its associated revenue, a decrease in investment income due to the reduction in the base investments, and the need to restore reserves. In addition, conditions were there for further enrollment decline. These considerations added up to a target of \$30 million in a second round of budget remediation. The FY18 budget being presented today reflects a \$50 million reduction from our actual spend in either FY16 or FY17 and is a reduction of about 15% of previously spending.

The final FY 2018 budget will be presented to the Board for approval on June 8, 2017. Mr. Ulliman offered a preview of that draft budget. The objectives utilized in the creation of the budget included a balanced budget with a minimum \$5 million in surplus to begin restoring reserves, prioritization of the instructional and educational components of the mission, creation and maintenance of a strong culture of fiscal accountability, and prioritization and adherence to review processes to ensure continuous efficiency and effectiveness.

A list of the colleges, divisions and departments was presented highlighting the reductions in personnel; operations or both that were taken in each area to arrive at a reduction of \$30.3 million in spending. Cuts were not uniform, nor across the board, but instead honored the priorities of each area and were managed based on the 5% or 15% reduction exercises each dean or vice president completed for their areas earlier in the year.

As outlined, Athletics will receive an additional subsidy of \$1.6M to their previous support level. Netted against that amount, however, are reductions in operational and personnel expenses. In the end, two sports programs were eliminated. Additional scholarship and roster management will net future savings. In summary, Athletics now has a budget to which they can be held accountable at the same standards as the rest of the University.

The latest round of budget cuts resulted in the elimination of 71 currently filled positions and 107 vacant positions. In addition, 14 individuals will be impacted with a reduction in their FTE status. The net result equates to \$14.1 million in reduced salary and benefit expense.

The FY2018 budget was built on the following assumptions:

- State Share of Instruction (SSI) is based on preliminary FY18 ODHE projections and includes the House of Representatives pool recommendation of flat state funding
- Enrollment decline of student credit hours is approximately 5% overall based on the estimates of Enrollment Management
- Instruction and General Fees are based on the enrollment projection and an increase of 3% in Graduate Fees.
- Non-Resident Tuition includes a 3% price increase and a volume decrease of approximately 20%
- Room and Board will each increase 3%
- No increase is budgeted for Salaries and Wages

The FY2018 Proforma presented by Mr. Ulliman shows the proposed budget broken out for the Main Campus, the Lake Campus and the Boonshoft School of Medicine and the reforecast budget for FY2017. Reflected in the revenue expectation are the assumptions presented above and a projected decrease in federal grant support. The expectation of investment income has been eliminated from the budget, as has the use of any reserves. Salaries and wages, as well as operations, show the results of the previous rounds of budget reductions. Debt service remains the same. The overall budget is set to create a surplus of \$5 million from the Main Campus and \$1,091 in surplus from the Boonshoft School of Medicine.

The University's proposed Budget will be posted online and a comment period will be opened to elicit feedback from the campus community. The Board will review the input prior to their June 8th meeting where they will vote to approve the FY2018 budget.

Additional financial controls have been put into place to help maintain fiscal accountability. These include system checks in requisitions for available budget, the elimination of the Electronic Department Purchase Order (E.D.P.O.), a proposed reduction in procard monthly limits, a suspension of the spending of carryover funds, a continued review of employment vacancies, and consequences for those with budgetary oversight for overspending or unauthorized use of funds.

Provost Sudkamp spoke about the possibility of additional expense reductions to enhance revenue, further decrease expenses and gain efficiencies. Consolidations and mergers between departments, units or colleges are being considered. The University is striving to better serve students, create synergies and redesign for the academic demands in growth areas for the 21st century. Centralized undergraduate academic advising, a single entrance point for career education and advising, and the elimination of lower enrollment programs are being reviewed.

Marketing services are being centralized, as are web and IT support. The University will undertake steps to create a new Strategic Plan, which will guide decisions on enrollment,

recruiting, academic programs, and retention. Currently, data analytics are being explored to better identify students at academic risk and a Campus Completion committee is addressing retention. Enrollment Management is developing a task force to define an Enrollment Management Strategic Plan with the goal of better serving all students and their academic success.

Mr. Fecher opened the floor for questions from the Board. Discussions ensued around Fiscal Watch, the University's drop in credit rating, measures being done to encourage additional enrollment, plans for adjusting the budget should enrollment decline, and the impact on salaries should negotiations fall short with the AAUP Faculty union over the current contract.

Mr. Fecher concluded the meeting saying no one likes this budget nor is happy with Wright State's current financial condition. He and the Board pledged to keep lines of communication open, ask more questions and better serve the University to emerge from this low point. Together with everyone's efforts we will emerge as a strong University dedicated to the service of students.

Adjournment

The meeting adjourned at 10:36 a.m.