D. <u>Finance Committee</u>

Mr. Fecher, chair, will report on the committee meeting of January 20, 2017.

Finance Committee
Meeting of January 20, 2017

Minutes

Present: M. Bridges, E. Broner, D. Fecher, S. Fitzpatrick, C.D. Moore, W. Montgomery

Guests: F. Ainina, C. Bajek, J.P. Cavaliere, L. Chan, R. Fyffe, T. Heigel, J. Hensley, D. Hopkins, N. Lasky, C. Loranger, D. Kimpton, K. Ralston, S. Sherbet, T. Sudkamp, R. Sweeney, C. This, J. Ulliman

Mr. Fecher called the meeting to order at 2:12 p.m. and reminded the Trustees to be aware of any conflict of interest and take the steps they deem appropriate.

Comments from the Chair

Trustee Fecher thanked everyone for attending the Finance Committee meeting and offered the following remarks.

The University's current financial status has been well documented and we continue to work together through a difficult financial remediation plan. Part of that financial remediation plan is more frequent meetings of this committee to provide timely oversight and reporting of the university's financial position throughout the year. All of us are eager to exit the financial remediation plan as a stronger institution.

While it is easy to focus on the very real challenges we face, I would urge the committee to pause and reflect on the progress we've made in strengthening internal controls and processes. And while it is too soon for these changes to be reflected in our financial results, the truth is we are laying important groundwork to help us return to financial stability and ensure this type of urgent financial situation does not occur again.

Some of the work we've done together to strengthen financial oversight and control include:

- Holding Finance Committee meetings more frequently throughout the year and requiring a review of changes in cash position against projections and a review of revenues and expenses, also against projections, at every meeting.
- Inviting representatives from the Faculty Senate, and from Classified and Unclassified staff to be part of our committee to offer perspective from these important constituencies;
- The Board of Trustees has adopted a new policy on Affiliated Entities that requires higher standards of financial performance and annual reporting of financial performance from these entities as it relates to financial support provided by the university; and
- Making interim revisions to our Investment Policy Statement to reduce risk in investment portfolios and conserve cash.

We have more work to do. Today we will discuss our plans for revising the Board's financial governance policy, adopted and last updated in 2003, and for using a graduate finance class to help us review and revise, as appropriate, the university's Investment Policy Statement.

We will also receive the most recent updates on cash position, revenues, and expenses and review current investment updates. Dr. Hopkins will discuss with us strategies for replenishing reserves, and we will look at expenditures exceeding $250,000 and seek a motion to forward expenditures exceeding $500,000 to the Board of Trustees as required by current policy.

Annual Investment Performance Review for Calendar Year 2016

Mr. J.P. Cavaliere, representative from S.E.I. Investment, reviewed the Fourth Quarter 2016 investment report and the Yearly Summary investment report as of December 31, 2016 for the Board.

Financial Performance Measurement and Reporting

- **Cash Forecast Report:**
  Mr. Jeff Ulliman, vice president and CFO, reviewed the Cash Forecast report. This report tracks inflows of cash such as tuition revenue and state subsidy against outflows of cash which include payroll, benefit payments, VRIP costs, operating expenses, debt service etc.

  Enrollment numbers show a 1% increase in domestic students and a decrease of 434 International students (200 undergraduate & 234 graduate students) which resulted in a $10 million loss in revenue when factoring out-of-state tuition costs. With global policy changes and unrest in countries in the Middle East, the loss of a segment of International students can have a profound impact on the University's budget both in the short and long term.

  As is customary in higher education, the University budgets to spend every dollar of expected revenue. When enrollment does not meets its targets, this negatively impacts the budget and draws down the University's reserves. Another factor not initially incorporated in the University's approved budget was the costs associated with the Voluntary Retirement Incentive (VRIP).

  Mr. Fecher offered a view of the University's current financial picture. Wright State has a short term budget problem whereby we are spending more than we take in. The long term budget problem is the need to diversify our revenue streams, strengthen enrollment and increase retention. Without addressing both of these problems, the University will be caught in a cycle of cuts and continue to experience financial challenges.

On a positive note, Wright State received an increase in state subsidy of $3.2 million over the initial budget projection. Combined with the sale of the Yellow Springs property, the revenues projections this month are showing an improvement over last month.

Estimates for the outflow of cash continue to become better defined with improved projections of the true VRIP costs, a better understanding of the savings potential from position attrition, and a clearer picture of expenditures for employee medical.

Overall, the Cash Forecast report shows a modest deficit improvement of $1.1 million over last month's report.

- **Wright State Budget Report:**
  This report compares the adopted budget to actual revenue receipts and actual expenses reported to date. Variations between budget and actual then offer an opportunity to revise the budget to better address current spending overages or revenue shortfalls. These are the evaluating tools for Senate Bill 6 and other measures used when the state evaluates the financial viability of the University.

  The Budget Report shows that revenue projections are down roughly $13 million which is predominately driven by the shortfall in enrollment previously discussed.

  On the expense side, for accounting purposes, the full costs of the VRIP have to be reported in this budget year even though the payouts will be structured over the next three years. This change in the forecast has occurred in this month's reporting. Spending relative to budget is being closely monitored centrally and if a department is making an expenditure, there must be budget to cover the expense or it will be disapproved.

  Overall, this Profit and Loss report is showing a net negative variance of about $17 million from the original budget.

<u>Financial Analytics</u>

Provost Sudkamp discussed the progress being made with aligning expenses to revenue using data resulting from attrition and the VRIP. Almost $10 million dollars in reductions of base salary occurred between January 2016 and January 2017.

Mr. Ulliman reviewed Wright State's rankings relative to 12 other Ohio institutions from the Ohio Department of Higher Education Basic Data Series. The OHDE Data Series is a comparison of unrestricted expenses per undergraduate student FTE between all of the Ohio four-year public institutions. For revenues, Wright State's tuition ranks fourth from the bottom and 10% below the state average cost of $9,745. However, spending for "Academic Support" is the second highest in the state or 19% above the state average of $2,561 which is reflective of Wright State's commitment to supporting student success.

Wright State also prioritizes “Instructional and Departmental Research” and “Student Services” including support for students with disabilities and ranks in the top 3 or 4 compared to other institutions. In terms of “Institutional Support” (administrative costs), Wright State is in the mid-range and below the state average of $2,530.

According to the state summary of all expenses, Wright State ranks at the state average for spending per FTE and manages these expenses with only 90% of the average tuition for Ohio schools.

Strategically, Wright State has chosen to be a lower cost provider while meeting students where they are to help them achieve academic success. By virtual of under-preparedness, some of these students require more support which contributes to a longer time to graduation, more remediation, and a lower retention rate. There was, and will continue to be, some discussion on how best to manage the complicated problem of controlling costs while increasing retention and graduation rates and insuring access for all students.

The State Support for Instruction (SSI) funding formula is based on course completions and graduations.

Rebuilding Reserve Funding

Dr. Hopkins offered historical background on strategic decisions made in 2011-2012. During this time, the State of Ohio identified Centers of Excellence at various institutions. Wright State was selected for Centers in Human Performance, Neuroscience, and Celia (Creative Arts). Concurrently, Ohio changed the SSI funding to a formula model based on payment for student retention and completion.

With healthy reserves in place and plans for the Rise. Shine Fundraising Campaign, the University elected to front-load $20 million in capital investments for the Centers and student success initiatives anticipating an increase in revenue from these initiatives.

Fundraising was targeted to replenish the “borrowed” reserves. To date, $15.7 million has been raised spread between cash payments, 5-year pledges and planned gifts. The pledges and planned gift payments will be received in the future according to the structured payment schedules.

Other payments are currently coming in from Foundation expense reimbursements to the University from donors who elected to cover program costs associated with the CAC, NEC and student success initiatives.

Dr. Hopkins highlighted a four-fold approach to supplement or replace University reserves. These include the Foundation reimbursements mentioned previously, one-time funds from public/private partnerships, debt repayments, and asset monetization. The debt repayments cited are reimbursing the support that the University loaned to the Wright State Applied Research Corporation and for funds advanced for the state’s Research

Development Capitalization Project. Asset monetization is the sale of assets such as the Yellow Springs property no longer needed by the University.

Contracts for Approval $500,000 and Above

Mr. Keith Ralston, associate vice president for Financial and Business Operations, presented contracts over $500,000. The following contracts are before the Board for approval.

Vendor	**Description of Services**	**Current Contract Amount**	**Previous Contract Amount**	**Term of Contract**
DPL Energy Retail	Electricity Generation Service	$2,525,683	$2,750,000	3/01/17 – 2/28/18
Pomeroy IT Solutions	Computer Purchases	$500,000	$1,500,000	1/1/17 – 12/31/17
Anthem	Medical and Prescription Insurance	$17,355,091	$34,385,625	1/1/17 – 12/31/17

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:
Do I have a Second:
Roll Call Vote:

Report of Contracts $250,000-$499,999

Mr. Ralston presented contracts between $250,000 and $499,999. No action of the Board is required.

Vendor	**Description of Services**	**P.O. Amount**
RoundTower Technologies	EMC Storage	$252,390
SciQuest	Procurement Software	$270,675

Board Financial Policy and Investment Policy Statement

Trustee Fecher gave an informational update to the Committee on the status of projects to revise the University's Finance Policy and the Investment Policy Statement.

Wright State's Board Financial Policy was last updated in 2003. Work is currently underway to add more rigor to the Board's oversight of the financial operations of the University. An early draft will be completed mid-February. Key stakeholders such as Faculty Senate, USAC, CSAC, Student Government, the administration and the Finance Department will be asked to review the draft and offer comments. The post-comment document will then come back to the Finance Committee for distribution to the Board for their input. The final policy is targeted for Board adoption and approval in May or June.

The University's Investment Policy Statement is also under review. Dr. Fall Ainina will be supervising a group of Finance students in the Master's program while the students conduct research on risk tolerance, time horizon, and best investment practices. A report on their findings will be presented to the Finance Committee by the end of the semester.

The meeting was adjourned at 3:40 p.m.

Respectfully Submitted,
Deborah Kimpton