



DRAFT

REPORT OF THE FINANCIAL AFFAIRS COMMITTEE

January 17, 2019

The Financial Affairs Committee met at 1:00 p.m. on January 17, 2019 at Keene State College in Keene, NH. Present were Committee members Todd Black (Presiding), Kass Ardinger, Bob Baines, Morgan Rutman, Jamie Burnett and Alex Walker; Trustees John Small, Jacqueline Eastwood, Cathy Green, Shawn Jasper, Ken Moulton, Scott Mason, Frank Edelblut, Majorie Smith, Christian Merheb, Nadia Hasan; President Donald Birx, President James Dean, President Mark Rubinstein, President Melinda Treadwell and Chancellor Todd Leach. Representing the Governor's Office was Rhonda Hensley.

A number of faculty, staff and students were also in attendance.

Trustee Black called the meeting to order at 1:00 p.m.

I. Approval of Minutes (Moved on recommendation of Trustee Baines and duly seconded)

VOTED, that the minutes of the October 25, 2018 meeting be approved.

(The Committee voted unanimously to approve this motion)

II Actual and projected financial results and budgeting

A. Performance dashboard

Vice Chancellor Provencher reviewed the financial dashboard indicating metrics were revised based on feedback received at the October meeting. She noted that the dashboard now shows a five years of actual results and a five year projection. A dashboard for facilities condition was added as requested which shows that relative to peers, USNH is in better shape.

In response to questions and comments, Matt Purcell, USNH Director of Capital Planning said that in April the annual report on facilities condition from Sightlines would be available and include a look at the impact on facilities condition of various funding levels. He said peer institutions would be listed and explained that Sightlines does an analysis by campus.

Trustee Small said that USNH institutions are in relatively good shape because of their own investment in facilities and a significant investment by the State of NH during the KEEP appropriation years.

B. FY19 P1 projection

1. USNH Update

Vice Chancellor Provencher reviewed the updated FY19 budget projection (P1) compared to the approved budget. She said that Total Operating Margin decreased by (\$7M) from 1.3% to 0.5%. She briefly discussed the reasons for the decreases indicating that it was driven by less revenues than expected. She said expenses were slightly better than budgeted.

Vice Chancellor Provencher reviewed results by campus and campus presidents offered comments and answered questions about actions that will be taken to rectify shortfalls as much as possible. The Committee discussed the Granite Guarantee and each institution reported on the number of students benefiting from the program. The value of the program to the State of NH was recognized along with a desire to continue funding the program.

The Committee discussed the thin operating margin, the need to focus on longer term strategic planning and find other revenue streams. Comments were made on state support, recruitment of international students, transfer students and retention.

Trustee Black said that the UFR:Debt ratio improved with an increase of 3%, 54% to 57% He noted the limited available funds for capital expenditures and the competing priorities. There was a brief discussion on the UNH Biological Science project and the need to have a plan for scaling down the project if State funds are not appropriated in the amount and time needed to complete the whole project.

2. UNH Law and UNH Manchester status update

UNH provost Wayne Jones shared information that depicted a series of metrics for UNH Law over the years FY17-FY19. He said the Dean of the Law School has been successful in reducing expenses and UNH has received approval for two of the certificate programs that are underway to diversify and increase revenues. He also indicated that they are working on providing on-line delivery for certain programs/classes In response to a question, he said the certificate programs attract a different type of student and are marketed nationwide. He does not anticipate that they will negatively impact the JD program. He said at this point in time, UNH Law is projected loss is about \$200k more than budgeted for FY19.

Dr. Jones shared similar information for UNH Manchester noting that tuition revenue is up and 2018 saw a record size graduating class. He said the visa issues are causing some problems for UNH Manchester. He said efforts are being made to achieve cost savings and UNH Manchester is also about \$200k lower than budget.

The Committee asked questions on both presentations regarding retention, financial aid and marketing. There was a brief discussion on sustainability and quality vs. affordability. The Committee reiterated its desire to receive reports on UNH Law and Manchester that extend beyond conversation. A request was made for a three year plan for UNH-Law and a suggestion was made to have both Deans present to the Board of Trustees in April. A discussion of the Franklin Pierce name with respect to UNH Law and an update on the UNH Manchester building were requested as specific points to include. Trustee Eastman encouraged trustees to visit UNH

Law, saying she was very impressed when she visited.

C. FY20 Budget

1. Update of State Operating Budget Request

Chancellor Leach said that the state operating budget request was submitted consistent with the guidelines approved by the Board and a presentation was made on November 16th at the public hearing. He said that the Governor has been supportive of the one-time strategic dollars requested and will likely recommend flat funding for the ongoing operating support. Vice Chancellor Provencher directed the Committee to a link for the USNH website which has the request as submitted and testimony presentation.

2. Approve FY20 Assumptions and Parameters

VOTED, that FY20 budget planning assumptions and parameters as outlined on the attached be approved for use in developing the FY20 budget.

(The Committee voted unanimously to approve this motion)

Vice Chancellor Provencher said that Updated financial projections for the System for FY19 through FY23 were presented and discussed at the BOT retreat in September 2018 and the assumptions and parameters were reconfirmed at the October 2018 Financial Affairs Committee. She reviewed the assumptions and parameters pointing out one change to the fringe rate from 39.5% to 40.5%. In response to a question, she said that enrollment assumptions are developed by the campuses and not through assumptions made by trustees.

Trustee Black asked if the presidents had any comments or concerns with the assumptions and parameters. President Birx said while it is good to set parameters, campuses continue to struggle with meeting the operating margin and the Board needs to consider whether it is realistic and have discussions on marketplace strategy.

Trustee Rutman said the margin is difficult to make and in the last few cycles has been met through expense mitigation and there needs to focus on revenues. Trustee Small said that the retreat in September is a good time for strategy discussions. Other trustees echoed the desire to continue working to monitor expenses but have more robust discussions on long term strategy.

3. Approve FY20 Resident and Nonresident Tuition

VOTED, on recommendation of the Campus Presidents, that the following motion be presented for consideration of the Board of Trustees.

MOVED, on recommendation of the Financial Affairs Committee that, effective for academic year 2019-20, the FY20 tuition rates as presented on the attached schedule be adopted as the maximum amounts authorized
(The Committee voted unanimously to approve this motion)

Vice Chancellor Provencher reviewed proposed tuition increases for both resident and non-resident students by campus.

Trustee Black said that by keeping resident tuition at 2.5%, USNH is growing at a rate lower than competitors and noted the importance of maintaining access and affordability.

4. Approve FY20 Housing, Dining and Mandatory fees

VOTED on recommendation of the Financial Affairs Committee that, effective for fall semester 2019, mandatory student fees be adopted in amounts not to exceed \$3,359 at UNH; 2,814 at KSC; and \$2,570 at PSU; **AND FURTHER**, that housing and dining rates be adopted as the maximum per the attached schedule.

(The Committee voted unanimously to approve this motion)

Vice Chancellor Provencher explained that each campus has a process for fee development that involves students. President Treadwell explained a change in what KSC is using for a representative meal plan.

5. Approve change in purpose of Benefits Cost Containment Quasi Endowment (HBCC)

VOTED, on recommendation of the Chancellor, that the name and purpose of Health Benefits Cost Containment quasi-endowment fund be changed to the Retiree Health and Rate Stabilization quasi-endowment with payout designated to fund retiree health claims; **AND FURTHER**, beginning in FY19, an amount be liquidated on an annual basis if needed, to fund any shortfall after payout is applied to retiree health claims and to cover any unanticipated year-end deficit for retiree health in active employees support.

(The Committee voted unanimously to approve this motion)

Vice Chancellor Provencher provided background on the HBCC quasi-endowment saying it was established in 2008 with \$13 million from fringe benefit reserves to provide a self-funded stop loss program for large claims and to fund strategic investments that would reduce the cost of medical insurance escalation. She said the fund has not been utilized since it was established and all earnings, including the administrative fee have been reinvested, resulting in a \$19 million balance.

She said the 39.5% fringe rate charged in FY19 is not adequate to fund projected fringe benefits costs in FY19, and USNH expects that it will fully deplete the remaining operating fringe pool fund balance as of June 30, 2019. She said this is a short term solution, and that the fringe rate charged as a percentage of active employee salaries has historically been enough to fund medical costs for both active employees and retirees. Because of higher than normal claims this was not the case in FY18 and is not expected to be the case in the future. She said the shortfall

in FY19 is expected to be approximately \$5 million. Management will work with its benefit consultant, Strategic Benefit Advisors (SBA) to make changes to benefit plans but it will take a couple of years to see the results. She said USNH has reserves and a stop loss policy that has been reviewed by SBA and is adequate.

She said SBA recommends that USNH continue to purchase stop-loss insurance on an annual basis rather than self-insure large claims. Renaming and repurposing the HBCC to support annual fluctuation of medical claim costs and experience is in keeping with the intent and for a purpose consistent with the original source of funds.

6. Approve FY20 Proposal for Endowment Payout

MOVED, on recommendation of the Investment Committee, that payout from the USNH endowment pool to support the purposes specified by the respective donors be approved for fiscal year 2020 at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2018, and that the administrative fee payout be not more than 1% of the trailing twelve quarter average market value per unit as of December 31, 2018, with both components to be paid regardless of the current market value of individual endowment funds as allowed under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which was adopted by USNH in 2009.

(The Committee voted unanimously to approve this motion)

Vice Chancellor Provencher Management said the Investment Committee recommends endowment spending guidelines to the Financial Affairs Committee each year for the amounts to be allocated for “purpose” and “administrative fees.” Management is recommending, and the Investment Committee approved earlier today, that the FY20 payout to purpose and the payout for administrative fee be set at 4.0% and 1% of the average market value per unit for the twelve quarters ended December 31, 2018, respectively. She said this proposed action is consistent with last year’s payout for purpose and the change related to the administrative fee is consistent with peers as well as the UNH Foundation payout. If approved, USNH will revise the Investment Guidelines to clarify that payout for administrative fee is based on the 12 Quarter moving average rather than the market value as of December 31.

III. Capital Items

A. Update of State Capital Budget Request

Chancellor Leach said the capital budget request USNH submitted has the support of the Governor and asks for \$10 million for UNH and \$2 million for PSU.

B. Update on Ongoing Capital Projects

Vice President Clement provided an update on the UNH water treatment facility.

Mr. Purcell provide an update on projects at PSU and KSC noting that the Cohen Center will be opening in about a month. He said the PE Center had some major structural issues with the existing building but a meeting is set for Saturday with the fire marshal and is expected to be open on Tuesday when students return.

President Treadwell invited trustees for a tour on the Cohen Center after the Board meeting.

IV. Ongoing Systemwide Initiatives

A. Strategic Procurement

Vice Chancellor Provencher said the new e-procurement tool, UShopNH will provide better data and change the procurement culture across the system and that USNH should begin to see a shift away from the level of p-card and direct pay purchases and move toward more contract and PO procurement methods.

B. Enterprise Resource Planning (ERP)

Vice Chancellor Provencher reported on the status of the ERP project and informed the Committee that Banner 9 went live on October 23. She said work continues on business process improvement.

V. Other Business

A. Chair or Committee comments

Trustee Jasper said he would like a presentation on the cost and value of the sports programs across the system. He also expressed concern about timely notice to trustees about a proposed UNH project in Durham. Trustee Small and President Dean provided an explanation and said more information will be coming to trustee in the next few months.

At the request of Trustee Green, campus presidents described what actions they were taking to lessen the impact on students or employees impacted by the federal government shutdown.

B. The Committee adjourned at 3:45 pm

C. Next meeting date is April 25, 2019 at UNH