



DRAFT

REPORT OF THE FINANCIAL AFFAIRS COMMITTEE

April 25, 2019

The Financial Affairs Committee met at 1:00 p.m. on April 25, 2019 at the University of New Hampshire in Durham, NH. Present were Committee members Chairman Joseph Morone, Todd Black, Kass Ardinger, Suzanne Foster, Morgan Rutman, Wally Stevens, and Alex Walker; Trustees John Small, Amy Begg, Jacqueline Eastwood, Cathy Green, Shawn Jasper, Ken Moulton, Scott Mason, Chris Pope, Marjorie 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 and Mac Zelle.

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

Chairman Morone called the meeting to order at 1:00 p.m.

I. Presentation of the Brad Perry Award

Vice Chancellor Provencher said an award is presented in honor of former Vice Chancellor and Treasurer Brad Perry who served USNH from 1988 to his death in 2000. The award recognizes significant contributions to financial improvements and/or collaboration. This year's recipients are lead members of the Banner Upgrade team: Julien Lafleur, Amanda Riecks-Kurshinsky, Sergey Vorotnikov, and Marc Behan. Vice Chancellor Provencher thanked the four recipients for their important contribution.

II. Approval of Minutes (Moved on recommendation of Trustee Dey and duly seconded)

VOTED, that the minutes of the January 17, 2019 meeting be approved.

(The Committee voted unanimously to approve this motion)

Chairman Morone shared several excerpts from the January meeting minutes that described the difficulty in meeting operating margin targets and the fact that in the last few cycles, margins have been met through expense mitigation. He said that these statements are still true and the margin projection has eroded further since January.

III. Actual and projected financial results and budgeting

A. Performance dashboard

Vice Chancellor Provencher reviewed the performance dashboard of system-wide indicators and Chairman Morone pointed out the declining trend in Operation Margin. Presidents Dean,

Treadwell and Birx described the metrics they are using to monitor results. Committee members asked questions on retention, class size, financial aid discount, quality and fundraising. President Rubinstein reported that GSC is in the process of updating its strategic plan and developing metrics. He shared the four areas of focus they will be measuring: Student success, engagement and partnerships, quality, and cost. Presidents commented that the impact of changes and improvements are not always immediately seen.

B. Admission Updates

Vice Chancellor Provencher reviewed updated admissions information as of April 23, 2019. She said systemwide, resident paid deposits are down 5.4% over the prior year at the same time and non-residents are down 8.4%. She noted that the admission cycle is still open, and results are subject to change in the next week prior to the May 1 deadline. Campuses shared comments on their results and current projections, with President Treadwell indicating that KSC is hopeful that an admitted student event on Saturday which is being held one week later than the prior year, will result in additional paid deposits. In response to a question, campuses shared the financial impact of 100 less students at their respective institutions.

Chancellor Leach provided information on NH Community College transfers and enrollment of NH residents indicating that while there are fewer graduates, USNH has lost market share with both. He shared plans for outreach to NH guidance counselors and high schools. Committee members discussed the perception of USNH within the State and the importance of marketing. Trustee Small said there would be a presentation at the Executive Committee meeting by the Communications Council.

C. FY19 P2 Projection

Vice Chancellor Provencher reviewed the updated FY19 budget projection (P2) compared to the approved budget. She said that Total Operating Margin decreased \$8 million from 1.3% to .4%. She briefly discussed the reasons for the decrease. She noted that operating revenues decreased \$13 million and operating expenses decreased \$5 million

Chairman Morone said that operating margin is down because of less revenue, and that decrease is partially offset by reductions in expenses. He said that at the next meeting when the FY 20 budget is approved, the Committee should consider whether an assumption of 2.5% increase in revenues is realistic. It was noted that net tuition and fees revenue is falling in large part because of increased discounting. Chairman Morone reviewed OM trends by institution and pointed out that UNH's strategic ambitions are growing, and they are not able to grow margin enough to support the other institutions. Committee members discussed the trend in declining margin and ways to address it agreeing that USNH needs to think about both tactical and structural changes.

Vice Chancellor Provencher explained the "SYS" allocation explaining that it was not the cost of the system office but rather unallocated expenses such as LRTP, fringe pool costs in excess of recoveries, etc. Trustee Morgan noted that if the allocation of the unallocated costs to the campuses is not proportional, leaving them unallocated could distort actual performance by each campus.

President Treadwell offered comments on KSC's financial situation and steps that have been taken and will be taken to improve results. She said a large part of the problem was with greater financial aid given than budgeted due to an unanticipated change in the mix of new students.

Vice Chancellor Provencher said the UFR: Debt ratio went from 54% (Budget) to 59% (P2) primarily because of the lower FY18 OPEB liability recorded. Chairman Morone said that the UFR:Debt ratio should not go below 50%, and if margins are lower than projected, the UFR-Debt ratio will decline, which will reduce USNH's ability to borrow or invest in the System.

D. Non-Public Session

At 2:45 p.m. the following motion to enter nonpublic session was made by Trustee Morone. The motion was duly seconded and approved by roll call vote. In addition to trustees, some system and campus administrators attended the non-public session. After about 10 minutes of discussion, Trustee Jasper questioned the need for the non-public session and asked to be recorded opposed. The need for non-public session was clarified by the Chairman.

MOVED, that the USNH Board of Trustees Financial Affairs Committee go into nonpublic session for the purposes of (1) discussing personnel issues including matters relating to collective bargaining, (2) discussing the hiring, dismissal, and compensation of certain public employees, (3) discussing strategic matters which if discussed in public could provide a competitive advantage to certain private interests to the detriment of the interests of the general community, and (4) consulting with legal counsel, as authorized by RSA 91-A:2, I (a) and (b) and 91-A:3, II (a), (c), and (d).

E. Return to Public Session

Upon a motion to exit nonpublic session, made by Trustee Rutman, duly seconded, and approved, Chairman Morone reconvened the public meeting at 4:15 p.m. and announced that the Committee discussed financial planning, management strategy and risk exposures. No actions were taken while in nonpublic session. A report on UNH Manchester was deferred until June.

F. Update of State Operating Appropriation Request

Chancellor Leach provided an update on the state operating budget request. He described the Governor's and House budget proposals, noting that the Governor's budget calls for flat funding in the ongoing support but includes \$24 million in one-time strategic investments and \$6 million for the UNH Child Study and Development Center. He said the House budget provides a \$4.5 million increase in ongoing support for FY20 and \$7.5 million increase in FY21 (in exchange for a tuition freeze), but it does not recommend one-time strategic investments. He indicated that he and campus presidents will be attending the Senate Finance hearing tomorrow.

IV. Capital Items

A. Update of State Capital Budget Request

Chancellor Leach said the Governor included \$10 million for the UNH biological science center project in his capital budget and \$2 million for PSU Hyde Hall in HB2. The House recommendation is for \$42m over 3 biennia for the UNH Biological Science, PSU Hyde Hall, and KSC Elliott Hall projects.

B. Update on Ongoing Capital Projects

Vice Chancellor Provencher reviewed the status of ongoing projects noting that the KSC Cohen Center was completed in February and the donors were very pleased with the finished project.

C. Review USNH 6-year capital plan

Mr. Purcell presented USNH's six-year capital plan. He explained the Facilities Condition Index (FCI) noting that it is a commonly used benchmark to assess condition of facilities. He said USNH manages 9.2 million square feet with a value of over \$3.3 billion in replacement value. He said USNH plans to invest \$520 million into capital assets over the next 5 years, with the majority of funds being spent on existing capital assets. Trustee Rutman noted that the \$3.3 billion is what it would cost to replace the existing plant and is not a current appraised value.

Vice Chancellor Provencher explained that the only way USNH can borrow money is through the New Hampshire Higher Education Health Facilities Authority (HEFA). She said that campuses are budgeted to invest in their facilities in an amount equal to depreciation.

Presidents were given an opportunity to comment on their capital plans. It was noted that even with the pressure on margins, USNH has been able to reinvest in its facilities and address deferred maintenance.

The Committee discussed the number of priority projects that do not have a funding source. HEFA funding was discussed and it was noted that the cost of financing a project through HEFA does not necessarily mean an increase in student fees for that project. Chairman Morone requested that in June when the operating and capital budgets are presented, the multiyear capital plan (5 year projections) be integrated with proposed timing and options for unfunded priority projects so that trustees can understand the gap between those priorities and the capacity to fund.

D. PSU Artificial Turf Field – Preliminary review

Discussion of this item was deferred.

V. Ongoing Systemwide Initiatives

A. Strategic Procurement – UshopNH Project Status

Discussion of this item was deferred.

VI. Other Business

- A. Chair or Committee comments
- B. The Committee adjourned at 4:55 pm
- C. Next meeting date is June 27, 2019 at GSC