REPORT OF THE FINANCIAL AFFAIRS COMMITTEE
October 24, 2019

The Financial Affairs Committee met at 1:00 p.m. on October 24, 2019 at Keene State College in Keene, NH. Present were Committee members Acting Chairman Joseph Morone, Kass Ardinger, Jamie Burnett, Christopher Pope, George Hansel and Alex Walker; Trustees Amy Begg, Jacqueline Eastwood, Shawn Jasper, David Westover, Chris Pope, Frank Edelblut, Scott Mason, Marjorie Smith, Christian Merheb, Cailee Griffin, Suzanne Foster, Tyler Minnich (USSB), Aura Huot (USSB); President Donald Birx, President James Dean, President Mark Rubinstein, President Melinda Treadwell and Chancellor Todd Leach. Representing the Governor’s Office was Rhonda Hensley.

Because of planned absences of other members, Jamie Burnett and Joseph Morone were temporary members of the Committee for this meeting.

Several faculty, staff and students were also in attendance.

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

I. Approval of Consent Agenda (Moved on recommendation of Trustee Burnett and duly seconded)

VOTED, that the consent agenda for October 24, 2019 meeting be approved.

(The Committee voted unanimously to approve this motion)

The following items were approved as part of the consent agenda:

- Approve minutes of the June 27, 2019 meeting
- Approve the request to suspend the limit on out-of-state-students at UNH for FY21
- Report on risks assigned to FAC – Information Only

II. Actual and projected financial results

A. Presentation on 2019 audited financial statements

Vice Chancellor Provencher shared highlights of the FY19 annual financial statements presented in detail at the morning’s Audit Committee meeting. She noted that at that meeting the auditors congratulated USNH management on the speed with which they are able to close the books indicating it is evidence of good controls.

B. Review Fall 2019 enrollment reports
Chairman Morone said that enrollment results were discussed at the morning Educational Excellence Committee meeting and suggested in the future that results are reviewed at one Committee meeting, probably Educational Excellence, and provided as an informational item to the other. UNH Provost Wayne Jones shared information on graduate and certificate student enrollment and discussed the diversity in that population. He mentioned the growth UNH is seeing in certificate programs. Chairman Morone requested that graduate and continuing education enrollment be included in future reports.

Vice Chancellor Provencher noted that the mix of students this Fall has more resident students and fewer non-resident students than was budgeted for the year. The revenue impact of that mix will be discussed at the January meeting.

C. Impact of FY20-21 state operating budget

Chancellor Leach said that the operating budget approved by the Legislature in September included $85.5 million in FY20 and $88.5 million in FY21 for USNH. It also included $9 million for the USNH nursing program. Vice Chancellor Provencher said the $9 million is one-time money that does not lapse. UNH will provide periodic updates on progress.

Based on the FY 21 State funding level approve in the State budget, Chairman Morone asked for a motion to recommend to the Board that in-state undergraduate tuition rates for FY21 be frozen at FY20 levels. The following motion was made by Trustee Burnett and duly seconded.

VOTED, that the following motion be presented for consideration by the Board of Trustees.

MOVED, on recommendation of the Financial Affairs Committee, in recognition of the strong support from both the Executive and Legislative branches of NH State government as reflected in its biennial operating budget for the USNH institutions, to make tuition more affordable for New Hampshire students, that, for FY21, undergraduate in-state tuition rates frozen at FY20 levels be adopted as the maximum amounts authorized, based on the funding levels for FY21 in the adopted State operating budget.

{The Committee voted to unanimously approve this motion}

There was a short discussion on the relationship between state support and in-state tuition and the increased discounting that has kept net tuition from increasing.

Vice Chancellor Provencher said that non-resident tuition and mandatory fees would be approved in January 2020.

D. Annual Debt Report
Vice Chancellor Provencher reviewed the annual debt report for USNH which was prepared by financial advisors, PFM. She gave an overview of the amount and structure of the outstanding debt for USNH. She referred trustees to information prepared by the rating agencies, Moody’s and S&P which discuss outlooks for the higher education sector and public institutions.

1. Discussion on debt/reserve investment capacity

Vice Chancellor Provencher discussed the metric USNH has been using to measure debt capacity, Unrestricted Financial Resources to Debt (UFR to Debt). She noted that Moody’s has adjusted its metrics and has replaced UFR to Debt with Spendable Cash and Investments (SCI) to Debt, which measures all liquid sources of funds available for operating and debt service purposes. She said if the SCI ratio was used to evaluate debt, PFM recommends that USNH work to manage their spendable cash and investments to 1.20. She said that USNH has a five-year average of 1.4X, whereas the median ratio for USNH’s rating class is 1.2X. She reviewed estimates of the amount of additional debt that USNH can take on while maintaining a 1.2X SCI. However, SCI is highly subject to market volatility. Accordingly, to protect USNH against market volatility, she suggested a more conservative threshold of 1.3X. At 1.3X, USNH has approximately $50 million in capacity for investment or debt issuance.

Chairman Morone said the philosophy of the Board in the past when enrollments were growing was to preserve debt capacity for new buildings. With a changing market and shrinking enrollments, the Board may want to shift its mindset and limit borrowing to avoid the cost associated with debt service. He pointed out the risk factors of volatile investment returns and negative margins could rapidly erode the amount of funds that could be used for investment, which reinforces the argument for limited borrowing.

Referencing the conversation at the Board retreat and earlier meeting, Chairman Morone said that a portion of the $50 million could be used to make strategic investments at PSU and KSC in support of the plans for achieving sustainable futures that they will present to the board. He said the Board would rely on UNH to self-fund its strategic plans through savings achieved through its various initiatives, and a lower (~1.5%) margin target.

2. USNH Statutory Authority for Debt Issuance

Vice Chancellor Provencher explained USNH’s current borrowing process through HEFA and restrictions by statute that limit the amount USNH can borrow for academic buildings. She updated the Committee on efforts to change this state law. The Committee discussed this effort and offered suggestions on approach and timing. Chairman Morone said the Board would rely on the Chancellor and Vice Chancellor to use their judgement in pursuing this change.

III. Capital Items

A. Update on capital-related items
1. Non-Public Session

At 2:52 p.m. the following motion to enter nonpublic session was made by Trustee Burnett. 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.

MOVED that the Financial Affairs Committee go into non-public session for the purposes of (1) discussing the acquisition, sale, or lease of real property (2) 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, (3) confidential, commercial, or financial information, and (4) consulting with legal counsel, as authorized by RSA 91-A:2, I (b), 91-A:3, II (c), and (d), and 91-A:5, IV.

2. Return to Public Session

Upon a motion to exit nonpublic session, made by Trustee Pope, duly seconded, and approved, Chairman Morone reconvened the public meeting at 3:37 p.m. and announced that the Committee provided guidance and direction to management on a real estate matter. No actions were taken while in nonpublic session.

3. UNH Health Science Project

Discussed at Educational Excellence Committee earlier in the day. Vice Chancellor Provencher said that the capital component of the UNH Health Science Initiative would come to the Committee when plans were finalized.

B. Renovations to the Whittemore Center – First Review

Vice Chancellor Provencher provided a brief overview of the Whittemore Center ice renovation project and the issues it will address. She introduced Bill Janelle, Associate Vice President for Facilities and Operations who reviewed the plans for renovating the Whittemore Center rink. Mr. Janelle explained the problems with the ice, the risks associated with not repairing and gave an overview of the project components. He said that while replacing the ice-making system and piping is the driving reason for the renovation, a renovation would also enable UNH to bring the size of the ice rink in alignment with NCAA Division I current specifications. Mr. Janelle responded to questions about the cost of both components of the project. He confirmed that the cost of the project is included in the FY20 budget for capital spending and is a top priority for UNH because of the increasing risk of a failure.

Committee members offered feedback to UNH in several areas and requested additional information when the project is brought back for approval in January. Included in those comments and requests were:

- Information on how the rink is used and who benefits besides athletic teams including but not limited to, Northeast Passage and various student organizations
- Number of games and revenues generated through attendance/sponsorships/advertising/rentals
- Impact on recruiting and student experience
• Safety/environmental improvements

C. Update on ongoing capital projects

Vice Chancellor Provencher said the report is provided at each meeting to show status of projects previously approved by the Committee. Mr. Janelle offered comments on the UNH projects noting that work has started on the Biological Science Center with excavation underway.

III. Other Business

A. Next Meeting date is January 16, 2020 at UNH
B. The Committee adjourned at 4:11 p.m.