



DRAFT

REPORT OF THE FINANCIAL AFFAIRS COMMITTEE

January 21, 2021

The Financial Affairs Committee met (via teleconference) at 2:30 p.m. on January 21, 2021.

Participating on the call were Committee members Mike Pilot (Vice Chair and presiding), Todd Black (Chair), Kass Ardinger, Frank Edelblut, George Hansel, Christopher Pope, Morgan Rutman, Greg Tewksbury, Alex Walker and Wally Stevens; Trustees Joseph Morone, Amy Begg, Jamie Burnett, Jacqueline Eastwood, Shawn Jasper, David Westover, Cathy Green, Senator James Gray, Tyler Minnich, President Donald Birx, President James Dean, President Mark Rubinstein, President Melinda Treadwell.

Staff: Tracy Claybaugh, Lisa Shawney, Kerry Scala, Wayne Jones, Scott Stanley, Marlin Collingwood, Catherine Provencher, Karen Benincasa, Ronald Rodgers, Tia Miller, Ann McClellan, Robin Derosa, Lisa Thorne, Heidi Hedegard, Jim McGrail, Laurie Wilcox, Aaron Keaton, Tom Weeks, Lori Tetley, Bill Poirier, Christine Ashford, Kenneth Cody, and Lorna Jacobsen.

The following statement was made by Lorna Jacobsen:

This meeting is being held by electronic means in conformance with the Governor's emergency declaration of March 13, 2020, and subsequent emergency orders, as well as the applicable provisions of the New Hampshire Right-to-Know Law, RSA 91-A. If during the conduct of this meeting, anyone has difficulty connecting or staying connected to the video or audio feed please contact Tia Miller at Tia.miller@unh.edu or 603-862-0918.

Call to Order: At 2:30 pm, Trustee Pilot called the meeting to order and noted the presence of a quorum sufficient for the conduct of business. He described the objectives of the meeting and noted one change to the agenda which is the elimination of the item Preliminary "Campus Outlook FY22/23 Relative to Financial Model" and the related non-public session as campuses had already provided updates during the morning session.

I. Approval of Minutes (Moved by Trustee Pilot and duly seconded)

MOVED, that the minutes of the October 22, 2020 meeting be approved.

(The Committee voted unanimously in favor of this motion}

II. Financial Update

A. FY21 Financial Update

Vice Chancellor Provencher reviewed USNH's financial position as of FY21 P1 compared to FY21 Budget and noted an estimated operating loss of \$110 million. Of that amount, \$93 million is described as one-time operating margin impacts related to nonrecurring costs primarily due to COVID and described \$28 million in net revenue losses including housing and dining, loss of revenue from summer programs and athletics; and \$65 million in expenses including the COVID testing and early retirement programs. In response to a question, she said the \$93 million is net after federal and state CARES dollars but does not include the \$28 million in federal relief approved in December 2020.

Campus presidents provided brief comments on the reasons for the lower than anticipated auxiliary revenues which included competition with local landlords, more remote students, and reduction in athletic revenues at UNH.

Vice Chancellor Provencher described some of the expenses including \$54 million in the COVID enhanced early retirement and separation programs (CERP/CESP/CISP) which will save money in the long run, but expenses will be incurred over FY21 and FY22. The Committee requested an accounting from each campus of the number of employee retirements/separations broken out by faculty and staff, how many of those positions each campus plans to refill and budget in FY 22 and beyond, and the associated savings and costs. A request that this report be delivered to the Executive Committee at a meeting in the near future was made. Trustee Rutman also requested a present value analysis of the program.

Vice Chancellor Provencher reviewed cash flow and said the model projects a use of \$99 million of cash in FY21, which is \$40 million more than was originally budgeted. Vice Chancellor Provencher shared some of the risks and opportunities for FY21 including the risk on investment and endowment performance. Trustee Rutman reported on the Investment Committee meeting earlier in the day saying that the Committee has raised about \$40 million in cash as a way to mitigate potential risks associated with COVID. He has asked that a line be added to the cash projections to reflect the additional liquidity available if needed. Vice Chancellor Provencher explained the possible risk of misclassifying an expense or cost as one time or temporary, when really it is recurring.

Trustee Morone summarized by noting that while the numbers may seem daunting, USNH knew significant investments would need to be made in FY21 to ensure the safety of our campuses and restructure the organization. He said there has been an enormous amount of work done, and programs like the CERP will put the campuses in better financial shape for the future.

B. Update of FY22 Enrollment and Admission Cycle

Vice Chancellor Provencher shared admission information as of January 19th, noting that resident applications are down systemwide and nonresident applications are up. Total applications are down. Campus presidents offered comments on their admission data, possible reasons for the decline in resident applicants, and explained that it is still early in the cycle to draw conclusions with this very preliminary information.

The Committee discussed and possible reasons for the decline in resident student applicants and Trustee Edelblut said he would work with leadership to help explore the reasons for the decline.

C. Preliminary System Outlook FY22/23 Relative to Financial Model

Vice Chancellor Provencher reviewed the model and said in June 2020, there was an estimated gap of \$70M identified by FY23 post-COVID to achieve 1% Operating Margin. She reviewed the assumptions made in June and how they have changed and provided an assessment using updated FY21 P1 information. She said that in total, it appears the FY23 updated revenue projections are reasonably consistent with the FY23 Financial Model and the \$70 million gap is still reasonable to assume. She said the projection does not include the \$28 million expected from the federal government (CARES funding approved in December 2020). Comments were made about the impressive work that went in to developing and updating the model and the fact that directionally the model is sound although there may be differences at the campuses.

Trustee Tewksbury inquired about the need to extend forecasting beyond FY23 based on the demographic trends reviewed earlier in the day. The committee agreed that information was important and will be developed in the future.

Trustee Morone said this first wave of restructuring will create a much more functional system and other restructuring initiatives in academic course sharing and online courses will build on the good results.

III. Update on Restructuring Efforts & Related Financial Implications

A. Ongoing Systemwide Initiatives

1. Financial Administrative Design

Vice Chancellor Provencher shared an update on the progress in the FAR project describing accomplishments in Phase I and Phase II. She said USNH is currently in Phase III, the implementation phase and commented on various accomplishments to date. She reviewed the timeline noting that the goal is to have the hiring done by the end of March and Huron will finish their engagement in May.

The Committee discussed the shift to a more remote workforce, the advantages, and the potential issues.

2. Human Resources Benefits Restructuring and Update.

Mr. McGrail briefed the Committee on Benefits restructuring, CERP participation and workforce reshaping and HR restructuring. He said \$11.5 million of benefit savings was achieved in CY 2021 with more potential for savings contingent on union negotiations. He said that as a result of FAR a number of HR responsibilities that were previously part of the UNH BSCs will be transitioning to HR and will require restructuring and new hires. He said the cost of those positions will be accounted for in FAR savings. He commented on next steps and said there will be more work done on remote work policies and benchmarking current benefit programs with peers.

Trustee Pilot complimented Mr. McGrail on the excellent work done in the benefits/HR area.

3. IT Reorganization

Bill Poirier, USNH/UNH CIO, shared information on the IT reorganization reporting on his successful reorganization of services across USNH under one CIO which will result in \$4.3 million in annual ongoing cost savings in FY 22. He described three upcoming initiatives including an RFP for leasing computers rather than buying, a request for information and potential RFP on a new ERP system and assessing risk of aging equipment. He answered committee questions on the cost of a new ERP and the reserves available for addressing aging equipment. It was noted that USNH has not done a good job of budgeting for deferred maintenance on IT over the years and that a plan for funding future needs will be required.

4. Strategic Procurement

USNH CPO Christine Ashford shared progress on strategic procurement work. She reported on the filling several new positions, work on several polices including vendor code of conduct and pcard and shared progress on USHOP implementation. She described saving and estimated cost avoidance achieved in the past year and expressed confidence in the ability of meeting savings targets through the use of better data analytics, contract consolidation, vendor management and other initiatives.

Trustee Pilot thanked all the Vice Chancellor Provencher, Mr. McGrail, Mr. Poirier and Ms. Ashford for their hard work and good results.

IV. Approve FY22 Budget Assumptions and Parameters

VOTED, that FY22 budget planning assumptions and parameters as outlined on the attached and amended by the Committee be approved for use in developing the FY22 budget.

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher reviewed the proposed assumptions and parameters. The Committee had a discussion on the assumption for the capital budget. As presented, there were two plans for capital spending required: Plan A at the level of 100% of Depreciation and Plan Bat 50% of Depreciation. After discussion with several trustees expressing the preference for the more conservative plan to be used to develop the capital budget, the Committee amended the assumptions and parameters to require that one capital budget at the level of 50% of annual depreciation be prepared by each campus, accompanied by a prioritization list of additional capital spending up to the level of 100% of depreciation.

V. Approve FY22 Tuition and Mandatory fees (Moved by Trustee Pilot and duly seconded)

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

MOVED, on recommendation of the Financial Affairs Committee that, effective for academic year 2021-22, the tuition rates as presented on the attached schedule be adopted as the maximum amounts authorized.

MOVED, on recommendation of the Financial Affairs Committee that, effective for fall semester 2021, mandatory student fees be adopted in amounts not to exceed \$3,442 at UNH-Durham; \$2,884 at KSC; and \$2,622 at PSU.

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher reviewed proposed tuition and mandatory fee increases. Committee members discussed mandatory fees, graduate student tuition rates, differential tuition rates and the complex issues surrounding the setting of tuition and fees including mission, public policy, and business realities. Chairman Morone recommended holding off on making any incremental changes to rates until a more comprehensive discussion can take place. He suggested pricing strategy as an in-depth topic for the September retreat.

V.I. Approve FY22 Housing and Dining Rates (Moved by Trustee Ardinger and duly seconded)

VOTED, on recommendation of the Campus Presidents that the following motion be presented or consideration by the Board of Trustees on January 22, 2021:

MOVED, on recommendation of the Financial Affairs Committee that, effective for fall semester 2021 (FY22), the housing and dining rates be adopted as per the attached rate schedules.

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher said the rates have been recommended by the campuses. She noted that the Price of Attendance (POA) uses a representative meal plan and standard double room. Details on all the rates are provided in the appendix.

V.I.I. Approve FY22 Endowment Payout (Moved by Trustee Walker and duly seconded)

VOTED, on recommendation of the Investment Committee, that payout from the USNH endowment pool to support purpose for fiscal year 2022 be approved at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2020, and that the administrative fee payout be not more than 1% of the trailing twelve quarter average market value per unit at December 31, 2020, 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.

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher reported that the Investment Committee approved this motion earlier in the day. The methodology is consistent with prior years. She said the Investment Committee has requested that the policy requiring annual approval be reviewed and revised to eliminate the requirement for a review each year unless there is a change.

V.I.I. Other Business

- A. Next regularly scheduled meeting date of the FAC is April 15, 2021
- B. The Committee adjourned at 5:30 p.m.