



DRAFT

REPORT OF THE FINANCIAL AFFAIRS COMMITTEE

April 15, 2021

The Financial Affairs Committee met (via teleconference) at 2:30 p.m. on April 15, 2021.

Participating on the call were Committee members Todd Black (Chair), Mike Pilot, 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 presenting material or providing comments: Kerry Scala, Wayne Jones, Catherine Provencher, Karen Benincasa, Ronald Rodgers, Kenneth Cody, and Lorna Jacobsen. Approximately 20 additional staff, faculty and students were in attendance.

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@usnh.edu or 603-862-0918.

Call to Order: At 2:30 pm, Chairman Black 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 the need for a non-public session at the end of the meeting.

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

MOVED, that the minutes of the January 21, 2021 meeting be approved.

(The Committee voted unanimously in favor of this motion}

II. Financial Update

A. FY21 Financial Update (P2)

Vice Chancellor Provencher reviewed USNH's financial position as of FY21 P2 compared to FY21 Budget. She said the projections do not include the additional federal funds approved in March 2021 (American Rescue Plan Act \$25M institutional share). She said that net tuition and fees is

consistent with budget in total and operating revenues are better than P1. She noted an estimated operating loss of \$85 million, driven primarily by a reduction in sales of Auxiliary services of \$29.2 million systemwide, and the estimated cost of the Covid Early Retirement Plan. The Committee discussed the need to better understand the reduction in Auxiliary revenues and how much of the decline is due to COVID related impacts versus recurring revenue deterioration. Vice Chancellor Provencher said there are bond covenants that require certain coverage ratios with respect to auxiliary revenues and reductions below a certain level could potentially impact USNH's credit. The projected revenue reduction will continuously be monitored.

UNH leadership offered comments on the reasons for UNH's decline of \$15 million in recurring Auxiliary revenue attributing a portion to a budget variance and lower occupancy rates potentially expected in the future due to keeping some dormitories offline for quarantine space and general lowering of density in the dorms. It was noted that while UNH freshmen are encouraged to live on campus, there is no requirement to do so. Dining was noted as a significant portion of the revenue decline.

Vice Chancellor Provencher reviewed cash flow and said the model projects a use of \$76 million of cash in FY21, which is \$18 million more than was originally budgeted but less than projected in P1. She said that including cash in the USNH Endowment fund, days cash on hand is on target as of June 30, 2021 and it does not look like USNH will need to draw down on the quasi-endowment for operations in the near future. She said that GASB 87 will be implemented in FY22 which will bring all leases (operating and capital) onto the balance sheet as debt which could potentially impact Spendable Cash and Investments to Debt metric.

Vice Chancellor Provencher shared some of the risks and opportunities for FY21 including the risk of continued loss of auxiliary revenue and possible future credit rating implications, and the possible risk of misclassifying an expense or lost revenue as one time or temporary, when really it is recurring. Opportunities include additional \$25 million in institutional federal funding (American Rescue Plan Act) and strong investment performance based on year-to-date results over the 6.5% that was assumed in the budget.

Chairman Black said the assumptions in the model are holding and the strong performance is a big accomplishment and a testament to leadership at the System Office and campuses.

B. Systemwide Outlook for FY22/23 relative to the Financial Model

1. Estimated Fall (FY22) enrollment

Vice Chancellor Provencher reviewed assumptions on enrollment in the FY22/FY23 model. She said if yield rates are similar to FY20, it is reasonable to assume Fall 2021 first year student enrollment will be similar to Fall 2020 and may be a little higher based on discussions at the morning session of the Education Excellence Committee meeting. The updated financial model for FY22/23 as updated in January 21, assumes first year students for FY22 will be equal to FY21. The encouraging presentation on enrollment earlier in the day was referenced and campus presidents were asked to comment on the outlook for enrollment and discount rates. Campus presidents were cautiously optimistic that projections would hold and may improve. Discount rates were expected

to be on target. President Rubinstein said there might be a change in discount rate depending on the level of Pell Eligible students enrolled; noting that the number of Pell eligible student submitting a FAFSA are currently lower.

Vice Chancellor Provencher provided an update on cash saying that USNH will continue to erode cash in FY22 primarily because of the CERP program which is a salary continuation program. She said in June 2020, the financial model indicated approximately \$70M in cost reductions are required by FY23 to achieve 1% Operating Margin. It appears that assumption is holding based on current projections. A number of risks were identified and will be closely monitored. Chairman Morone said the balance sheet is still strong after weathering a monstrous storm even though liquidity has been reduced.

2. Update on Systemwide restructuring initiatives.

Vice Chancellor Provencher shared a dashboard that depicted the status of reaching the \$70 million in expense reductions by FY23. The dashboard included rolling expenses back to FY19 levels, and systemwide initiatives including Benefits Restructuring, Financial Services savings, Information Technology, Procurement, and campus initiatives. Vice Chancellor Provencher cautioned that there may be ‘double counting’ of expense reductions within current estimates for Categories 2 & 3 and management will be reviewing carefully. She noted HR savings may be slightly below target because of the delay in the adjustment to the retirement plan and projected medical cost increases (trends) that were not included in projections. She described the work on the FAR project saying that it has been an enormous amount of work across the system and will continue to be very disruptive. She said hiring is almost complete and saving will likely be short of the \$5.4 million currently projected but exceed the \$3 million target.

Vice Chancellor Provencher reviewed the results of the CERP indicating that about one third of the positions vacated will be filled resulting in approximately \$18.5 million in savings. She said management is working on headcount and payroll tracking to make sure we achieve the target return. Chairman Black asked that the topic of headcount and payroll tracking be put on a future agenda. The Committee discussed upside opportunities that could improve financial results including higher enrollments and investment returns over what is projected.

Vice Chancellor Provencher gave an update on State operating budget support reporting that the House restored the reduction in funding that was in the governor’s budget to the current \$88.5 million per year. She said USNH is meeting with the Senate Finance Committee on April 27.

Various Trustees expressed their appreciation for the hard work of the staff and the leadership that has allowed USNH to weather the storm which still isn’t over. Vice Chancellor Provencher said the comments are very much appreciated as the staff in all impacted areas have been working very hard in difficult circumstances.

3. Non-Public Session

At 3:52 p.m. the following motion to enter nonpublic session was made by Trustee Black and seconded by Trustee Rutman. The motion was approved by roll call vote. In addition to trustees,

system and KSC campus administrators attended the non-public session.

VOTED, that the Board of Trustees go into nonpublic session for the purposes of discussing projections of institutional financial performance and conditions and the implications for institutional planning, permitted under the NH Right to Know Law provisions relating to discussions (1) confidential, commercial, or financial information, (2) matters of market strategy which, if discussed in public, would likely benefit a party or parties whose interests are contrary to those of the general public, (4) matters likely to affect collective bargaining strategy, as authorized by RSA 91-A:2, I (a) and 91-A:5, IV.

4. Return to Public Session

Upon a motion to exit nonpublic session, made by Chairman Black, duly seconded, and approved, Chairman Black reconvened the public meeting at 5:39 p.m. and announced that no actions were taken while in nonpublic session.

III. Other Business

- A. Next regularly scheduled meeting date of the FAC is June 24, 2021
- B. The Committee adjourned at 5:30 p.m.