

YSU Budget Advisory Council

Minutes for the meeting of March 31, 2017

3:00 p.m. – Kilcawley Center, Hynes Room

Members in attendance: Elaine Jacobs, Dr. Ken Learman, Carly Devenburgh, Lisa Mudryk, Dr. Jeffrey Coldren, Eddie Howard, Jacob Schrinier-Briggs, Neal McNally.

Guests in attendance: Becky Rose, Jasmine Harper.

Members absent: Dr. Charles Howell, Dr. Tomi Ovaska, Dr. Jeff Tyus, Gabriella Gessler, Carole Weimer, Amy Gordon, Dr. Martin Abraham, Connie Augustine-Thompson, Len Schiavone, Dr. Thomas Wakefield.

1. The meeting convened at 3:00 p.m. The minutes from the 3/9/17 meeting, which had been distributed prior to today's meeting, were accepted as final without changes. Neal McNally introduced and welcomed two guests: Becky Rose, recently-hired assistant director in YSU's Marketing & Communications office; and Jasmine Harper, a freshman who is participating in YSU's Navarro Executive Fellows program.
2. Neal McNally made a PowerPoint presentation about the University's finances, reserve funds and budgeting. It was noted that matters related to the University's finances tend to fall under the auspices of the Accountability & Sustainability cornerstone of the YSU 2020 strategic plan. The PPT presentation is summarized below and can be accessed online at https://cms.ysu.edu/sites/default/files/documents/administrative-offices/procurement-services/Presentation_3.31.17.pdf
 - a. Senate Bill 6 is state legislation enacted into law in 1997 in response to fiscal mismanagement at Central State University during the mid-1990's when CSU had completely depleted its reserve funds and continued spending at levels unsupported by revenues. S.B. 6 codified many of the actions taken to remedy CSU's financial woes, including a mechanism for the state of Ohio to take over management of a state college or university, if necessary due to financial mismanagement; the establishment of quarterly and annual reporting requirements and deadlines; harsh penalties for noncompliance and for subpar financial performance; and the annual calculation of a financial ratio analysis, performed by the Ohio Department of Higher Education, to measure each university's financial performance and fiscal health.

This financial ratio analysis is based upon each institution's audited financial statements, and consists of three ratios: Net income ratio, which compares expenses and revenues to determine if a campus is operating within its resources; the viability ratio, which measures a campus's ability to manage long-term debt obligations; and the primary reserve ratio, which measures a campus's ability to use reserves in the absence of future revenue. The ratios are assigned a score ranging

from 0 to 5, with 5 being the highest and most desirable score signaling fiscal strength. Each ratio score is then weighted as follows: net income ratio: 20%; viability ratio: 30%; primary reserve ratio 50%. The fact that the primary reserve ratio makes up half of the entire SB 6 score demonstrates the emphasis the state of Ohio places on universities' reserve funds, effectively mandating that universities maintain robust reserves. The weighted scores are summed to create a single "composite score" that serves as SB6's main metric for measuring the fiscal health of each individual university on an annual basis. This is but one reason why the YSU 2020 Strategic Plan cites the SB6 ratios as a key metric. On a scale of 0 to 5, any Ohio state university that earns a composite score of 1.75 or less for two consecutive years would automatically be placed on "fiscal watch" by the state of Ohio, triggering the types of actions that occurred at Central State University in the late 1990's, including the removal of the university's board of trustees, and the appointment of a state conservator to oversee the university's financial recovery. Under a fiscal watch scenario, there is little room for shared governance, as control of the university would effectively shift to Columbus. Any university under state fiscal watch would be forced to take significant austerity measures as part of its recovery plan, including retrenchment of faculty and staff, as was the case at Central State in the late 1990's when CSU experienced a 61% drop in enrollment levels. Consequently, boards of trustees and university management statewide manage institutional finances in such a manner to avoid financial distress and to maintain strong SB 6 ratios and composite score. YSU's current SB6 composite score is 3.5, suggesting that YSU has responsibly managed the University's finances.

Senate Bill 6 aside, there are other reasons universities should maintain reserve funds. Reserves generate investment income to support YSU's operating budget, at approximately \$1 million per year. Reserves are "one-time" dollars that are accumulated incrementally over time and therefore should not be used to support ongoing base expenses, such as payroll expenses. Reserves are also part of a long-term planning strategy, especially regarding building maintenance and debt service. Reserves mitigate operational risk by serving as a buffer when revenues don't hit targets. And reserves can be a funding source for facility-related emergencies that are unexpected or unplanned.

Information was presented about the Tressel Administration's budget priorities, and the Governor's proposed budget (House Bill 49), both of which had previously been topics of discussion at prior Budget Advisory Council meetings. Neal McNally noted that the governor's textbook proposal has been received rather coolly during budget hearings in the Ohio House of Representatives Finance Committee. The chairman of that committee has made public statements indicating that the language pertaining to governor's textbook proposal would very likely be amended. While this is good news for universities statewide, it is still uncertain as to what we might expect in terms of state policy regarding the issue of textbook affordability.

Information about the current year's operating budget was presented. As of the end of the second fiscal quarter (12/31/16), YSU's general fund revenues and expenses are tracking as expected and on-budget. A preliminary draft forecast of the general fund operating budget was presented for the next three year-period covering FY 2018 through FY 2020. Current planning assumptions include 2% enrollment growth in FY 2018 (non-CCP); and 1% enrollment growth in FYs 2019 and 2020 (non-CCP). It was noted that these enrollment projections may be overly aggressive given projected demographic shifts in the region, as reported earlier this semester by Gary Swegan. The budget forecast also includes a 1% increase in SSI funding in FY 2018; savings from faculty resignations in FY 2018; and the cost of hiring 26 new faculty in FY 2018, which is consistent with the Tressel Administration's priority to invest in the replacement and addition of personnel. However, other Administration priorities are not (yet) reflected in the budget forecast, namely investments in workforce compensation, IT infrastructure, and facility maintenance. It was noted that these budget projections are preliminary and will change, since budgets are often fluid, reflecting plans that should be updated as new information becomes available. It is expected that legislative changes to the state budget will impact these projections, as will the state's economic forecast and YSU's enrollment outlook, which are likely to be revised over the next several months. It was also noted that the budget forecast for FY 2020 is especially uncertain since virtually nothing is known about the future of state higher education policy three years from now—the farther out projections are made, the more susceptible to revision they will be.

3. In light of the information presented, there was some discussion among members present about the need for YSU to have robust planning in terms of academic program offerings, focusing on niche programs where YSU could distinguish itself from other institutions. Given the budgetary risk associated with overly-optimistic enrollment projections, there was discussion about the need for a planned, deliberate and thoughtful way to downsize YSU in terms of optimal student enrollment levels. There was some discussion about the possibility of increasing summer course offerings, though it was noted that YSU's summer enrollments have decreased over the past several years, despite a spike in the number of online courses offered in the summer. There was mention of YSU possibly offering a "J term," an abbreviated semester during the month of January. This would enable students to complete programs faster and possibly have a positive impact on University revenue.
4. The meeting adjourned at approximately 4:20 p.m.