YSU Budget Advisory Council

Meeting minutes –February 25, 2019
9:00 a.m. – Kilcawley Center - Esterly Room 2069

Members in attendance: Dr. Charles Howell, Carly Devenburgh, Dr. Thomas Wakefield, Dr. Jeffrey Coldren, Lisa Mudryk, Elaine Jacobs, Caroline Smith, Ernie Barkett, Dr. Gregg Sturrus, Neal McNally.

Members absent: Mr. Eddie Howard, Dr. Joe Mosca, Dr. Tomi Ovaska, Dr. Bruce Keillor, Dr. Jeff Tyus, Dr. John Jakubek.

Guests: Dr. Kristine Blair, Dean of the College of Liberal Arts & Social Sciences; and Jacci Johnson and Bill D'Amico, Undergraduate Admissions.

The meeting convened at 9:05 a.m.

1. Jacci Johnson and Bill D'Amico provided an update on the Sweeney Hall Welcome Center renovation project, for which the Council last year recommended $60,000 in strategic investment funding. Photos included in Ms. Johnson's and Mr. D'Amico's Power-Point presentation showed impressive before and after pictures of the interior of Sweeney Hall. Ms. Johnson stated that much of the building's original woodwork was preserved, and that they intentionally used local vendors for the renovations, including having a local Boardman-based company reupholster and refurbish wooden chairs that would have been costly to replace. Ms. Johnson enumerated a number of items outstanding that Admissions would like to complete in the future, including the painting of an exterior handrail, enhancing building accessibility and the installing wall clocks. Ms. Johnson indicated that a donor has pledged $70,000 to restore and paint the moldings on the exterior of Sweeney Hall.

   Dean Kristine Blair provided an update on the creation of a Digital Humanities Center, a project for which the Council last year recommended $100,000 in strategic investment funding. Dr. Blair reported that YSU was unsuccessful in its grant proposal to the National Endowment for the Arts (NEA), which would have provided additional funding for the project and for which the $100,000 in YSU funding had been identified as matching funds. However, Dr. Blair noted that it is not unusual to be denied NEA funding on the first try. She also stated that the NEA had provided positive feedback on YSU's grant proposal but that the creation of a center was not yet far enough along to justify funding from the NEA at this time. Accordingly, YSU will resubmit a second grant application to the NEA at the appropriate time. Dr.

Blair said that spending of the $100,000 in YSU strategic investment funds is expected to begin with Facilities' summer 2019 construction season, with much of the project costs to be subsumed by the renovation of room 561 in DeBartolo Hall. Ultimately, the Digital Humanities Center would become a *public* center, with satellites located in other parts of campus and within the local community.

2. FY 2018 financial performance. Neal McNally updated the Council on the University's financial performance for the fiscal year that ended on June 30, 2018, as measured through the state of Ohio's Senate Bill 6 financial ratio analysis. Commonly referred to as the *Senate Bill 6* ratios, named for the legislation enacted in 1997, the Ohio Department of Higher Education is required to conduct a financial ratio analysis each year, based on each university's audited financial report. This analysis consists of 3 basic ratios, which are weighted, assigned a score, and then summed to create a single composite score. The first ratio is the net income ratio, which compares expenses and revenues to determine if a campus is operating within its resources. This ratio makes up just 20% of the total composite score because, as a public institution, we're not expected to have a profit margin, so net income is weighted by just 20%. The second ratio is the Viability ratio, which measures a campus's ability to manage long-term debt obligations. This ratio makes up 30% of the total composite score. And the third ratio is the Primary Reserve ratio, which measures a campus's ability to use reserves in the absence of future revenue. This ratio is weighted by 50%, underscoring the state's emphasis on the need for universities to maintain robust reserve balances.

   Referring to a handout [available online], Mr. McNally noted that the colors shown in the tables and graphs have meaning: Green is good, an indicator of strong financial position. Yellow is cautionary; and red is an indicator of financial distress. There are no red indicators assigned to YSU as far as the SB6 ratios are concerned. The table on the lower left-hand corner of the report shows YSU's ratios and weighted scores for FY 2018. YSU's net income ratio slipped from a score of 3 in FY17 to score of 2 in FY18. This is mostly the result of scholarship spending. As YSU continues to spend more on scholarships, our net tuition and fee income is reduced, which negatively impacts the net income ratio. This is shaded in yellow as a cautionary reminder concerning the university's net income. And for the viability ratio, YSU has a reasonably strong score because we have relatively low levels of debt, combined with the fact that we continue to effectively manage our long-term plant debt obligations without adding new debt.

   On a scale of 0-5, with 5 being the best and highest possible score, YSU's composite score is 3.3. As shown on the SB6 scale in the bar graph on the top right-hand corner of the handout, a score of 3.3 keeps YSU in the safe financial zone. Any institution that scores at or below 1.75 for two consecutive years would automatically be placed on fiscal watch by the state of Ohio. Being placed on fiscal watch triggers a whole host of actions by the State of Ohio, none of which are desirable. Mr. McNally noted that YSU has never been placed on fiscal watch by the State of Ohio.

On the second page of the handout, there is information about YSU's bond ratings, which is key cornerstone metric of fiscal health that was identified in the YSU 2020 strategic plan. These ratings are useful because they represent independent assessments of our credit worthiness and ability to manage long-term debt obligations. Typically, universities will maintain bond ratings when they are active or planning on being active in the bond market, that is, when a university has plans to issue new debt through, for example, a general receipts bond issuance, or if a university has plans to refinance existing debt. YSU currently has no plans to do either of those things and so we haven't gone through a ratings exercise since 2016. That aside, the A-grade ratings YSU has most recently received from both Moody's and S&P suggest further evidence that the University's financial health is fairly strong and would signify to investors that YSU bonds represent a high quality investment with only moderate risk. The graph on the bottom half of the second page shows the institutional plant debt reported for each state university at the end of FY 2017 [more up-to-date FY 2018 figures have not yet been published]. YSU's debt burden is among the lowest in the state, especially when normalized by expressing institutional debt on the basis of student enrollment. And while debt usually has a negative connotation, Mr. McNally noted that the institutions with the highest levels of debt per student—OSU, NEOMED and Miami—also have the strongest SB6 scores. This suggests that debt alone is not necessarily a bad thing. It's really a matter of whether your university can manage debt effectively within the resources available. YSU has comparatively fewer resources with which to manage debt, whereas some other universities have historically been more aggressive in terms of establishing fees and raising tuition, which allows them to manage heavier debt loads.

3. FY 2019 operating budget update. Neal McNally provided an update on the current year operating budget, as measured by the *Budget vs. Actual* comparison of revenues and expenses mid-way through FY 2019, that is, through 12/31/18. Referring to a second handout [available online], Mr. McNally stated that total revenues are on target, having reached 77% of the budgeted annual target. Compared to the prior fiscal year, total revenues were approximately $1 million or 0.9% greater at 12/31/18. He noted, however, that revenues from tuition and mandatory fees are

tracking below budget due to actual enrollments being slightly lower than budgeted targets and, more importantly, a 1.3% negative variance between budgeted and actual tuition revenue per FTE student. Realized investment income rebounded during the second quarter, reaching roughly 58% of the annual budgeted target at 12/31/18. However, Mr. McNally said that concerns persist over market volatility and the possibility of unrealized losses—through 12/31/18, unrealized losses totaled $3.1 million.

Regarding expenses as of 12/31/18, Mr. McNally observed that scholarship spending appears to have stabilized in FY 2019. The $3.5 million increase in this year's scholarship budget appears mostly sufficient to cover FY 2019 scholarship spending. Nonetheless, scholarship spending in FY 2019 is projected to exceed the budget by roughly $500,000 by fiscal year-end, despite the use of $541,000 in one-time scholarship funding from the Ohio BMV Alumni License Plate program. Given the 153% increase in scholarship spending over the last three years, Mr. McNally stated that the University intends to engage the Education Advisory Board to perform a scholarship analysis to optimize scholarship spending and synchronize the University's scholarship program with a new strategic plan.

4. Development of planning templates for carry-forward funds. Mr. McNally distributed a planning template developed by Marilyn Ward, Academic Budget Officer. Dean Charlie Howell said that Ms. Ward had also shared the template with the Council of Deans a week ago. The planning template was developed to foster long-term planning and specifically for fee-based funds under the management of college deans and department chairs—lab & materials (course) fees, program fees and college fees—including both current year funds and carry-forward funds from prior fiscal years. It was recommended that the template be further refined to include a contextual framework that describes the original purposes of the fees, and additional detail of how the fee-based resources have been used. Dr. Howell noted that long-range planning is appropriate for these funds that he said represent an important source of discretionary funds available to the colleges. Dr. Howell also noted the differences among the fees charged by different colleges and programs, and said that he may propose assessing the College of Education fee to first-year students (who are presently exempt from college fees). Ernie Barkett said that students will be more receptive to these types of fees so long as they know that the fees are being used for the purpose for which they are collected. Neal McNally stated that while YSU does directly allocate those fee-based resources to the colleges and departments (to enable the funds to be used for the purposes for which they were collected from students), that is a result of an internal budget allocation decision to do so. He noted that the University is permitted to and has in the past used portions

of those fee-based resources for other institutional priorities, such as last year having used course and college fees to help close the $3 million deficit in the University's scholarship budget.

The meeting adjourned at 10:25 a.m.