Board of Trustees
Finance and Administration Committee Meeting
Thursday, June 18, 2020
Videoconference

MINUTES

Call to Order/Roll/Declaration of a Quorum

Committee Members:

Sheila Clough	Present	Paul Nicholson	Present
Les AuCoin	Present	Bill Thorndike	Present
Shaun Franks	Present	Steve Vincent	Present
Megan Davis Lightman	Present		

Chair Sheila Clough called the meeting to order at 4:04 p.m. The secretary recorded the roll and a quorum was verified.

Other trustees in attendance: Lyn Hennion, Deborah Rosenberg, Daniel Santos, President Linda Schott and janelle wilson.

Other attendees and Zoom webinar panelists included: Greg Perkinson, Vice President for Finance and Administration; Jason Catz, General Counsel; Dr. Neil Woolf, Vice President for Enrollment Management and Student Affairs; Dr. Susan Walsh, Provost; Janet Fratella, Vice President for University Advancement; Jeanne Stallman, Associate Vice President for Government and Corporate Relations; Sabrina Prud'homme, Board Secretary; Josh Lovern, Budget Office; and Kathy Park, Office of the Board Secretary.

Public Comment

There was no public comment.

Consent Agenda

Trustee Lightman moved to approve the consent agenda as presented. Trustee AuCoin seconded the motion and it passed unanimously.

Vice President's Report

Greg Perkinson expressed his deep sense of appreciation to SOU's employees for their sacrifices and work through these difficult times. COVID-19 is creating a rapidly-changing environment and employees are doing critically-important work to prepare for the summer and fall terms.

Mr. Perkinson addressed an item from a prior meeting's public comment period: selling municipal bonds to provide operating revenue. He and Jason Catz detailed why it would not be viable for SOU. Chair Clough said the suggestion and comments signal that the campus community is interested in being innovative and part of the solution.

<u>Committee Dashboard</u>

Greg Perkinson reviewed the financial dashboard. Revenue did not change much in

May. There is no change in enrollment and a change would not be expected at this point. He noted the $3 million disconnect in revenue receipts.

On the expense side, the categories are doing well, comparing current execution to the burn rate. Positive indicators are in Supplies and Services expenses and savings in Other Personnel Expenses tied to vacancies. This all rolls up to the Education and General (E&G) fund balance, which is behind the target. However, Mr. Perkinson was pleased to note that, although SOU did not receive $3 million in revenue as planned, the gap is close to the target of the fund balance.

In response to Vice Chair Nicholson's question about the relationship between the E&G fund balance and operating cash, Mr. Perkinson said the operating cash is tracking actual cash against plan. The revenue losses compared to the target show the softening of receipts. When looking at all the institution's cash funds, there are unrestricted and restricted funds. The restricted cash amounts have remained fairly steady, which include plant cash. Regarding the cash loss in housing, Mr. Perkinson said housing received payments then issued remissions and refunds against them.

HECC Update

Mr. Perkinson said the HECC had two meetings the previous week. Regarding capital projects, SOU's music hall project moved up three positions in the batting order, which increases the probability of getting some funding.

Turning to the agency request for budget, Mr. Perkinson said Jim Pinkard gave a presentation at a HECC meeting on the history of how higher education was funded in the last recession, the impact of state actions and how defunding from various states nationwide affected increases in tuition. At the end of the presentation, Commissioner Rowe commented on the tension she felt between the soundness of his argument and the reality that there is no way the HECC will get the funding it is going to request.

At that meeting, Ben Cannon provided an update on the projected budget rescission. Originally, it was a plan for an 8.5 percent budget cut, which ties to SOU's $3 million loss in state appropriation. Mr. Cannon indicated the new number is 3 percent, which ties to a $1 million reduction for SOU. Staff updated the pro forma scenarios accordingly. Mr. Perkinson added there will be a lot of planning to get through the next fiscal year and prepare for the next biennium. President Schott cautioned that the HECC does revenue projections throughout the year and it is possible there could be a midyear rescission, which has happened before.

Mr. Perkinson thanked everyone – legislators, trustees, regional business leaders, students, faculty and staff – who provided testimony on behalf of SOU's financial situation related to the Student Success and Completion Model (SSCM). SOU has great support in telling its story.

COVID-19 Financial Impacts

Greg Perkinson highlighted the recession-related charts in the meeting materials, which were taken from the state's revenue forecast. The recovery is protracted and tourist-reliant regions may have the largest impacts. The current estimate for the loss in revenue is $2.7 billion in the current biennium, $4.4 billion in the 2021-23 biennium and $3.4 billion in the 2023-25 biennium. There are three budgetary reserves available to the governor and legislature. He said the strategy may be to use the fund balance in the next fiscal year to soften the cuts in the current biennium. In the next biennium, the question is how the other reserves will be utilized.

He then reviewed the COVID-19 fiscal impacts on SOU and the summary of CARES Act funding, as included in the meeting materials.

Action, Information and Discussion Items

Fiscal Year 2020-21 Budget (Action)

Greg Perkinson summarized the budget forecast variables, as included in the meeting materials. One scenario is that SOU receives no relief from the state or federal governments; the other scenario envisions $3 million in relief. Each scenario includes two additional variants: -10 percent enrollment with an 8 percent ending fund balance and -20 percent enrollment with a 5 percent ending fund balance. In the scenario with no financial relief and -10 percent enrollment, $6.4 million in cost reductions would be needed to reach an 8 percent ending fund balance.

Responding to Trustee AuCoin's inquiry regarding enrollment, Dr. Neil Woolf said fall registrations are currently down 10-13 percent from last year. However, for various reasons, year-to-year comparisons are just a bit off but the figures are in that ballpark.

Responding to inquiries from Chair Clough and Board Vice Chair Nicholson, Mr. Perkinson said the cost reductions highlighted in the budget forecast variables would be new reductions needed to hit the target. Of the $3 million in reductions in the current fiscal year, only a portion are recurring and those are laid into the budget plan. Mr. Perkinson estimated that one-fourth to one-third of the savings are recurring. The nonrecurring savings are ones that have to be made all over again. Over a two-year period from this fiscal year and next, the cost reductions are about $9-10 million.

Mr. Perkinson then reviewed the second scenario, which reflects the optimistic hope of receiving $3 million in financial relief. This could come from state or federal funding or from the SSCM if SOU's advocacy is successful. He then mentioned the opportunities for cost reductions in scenario 2A, the administration's recommendation, including faculty negotiations, layoffs, extending furloughs through the end of the fiscal year, other savings such as continued travel restrictions, and continuing the hiring freeze.

Chair Clough summarized the two scenarios and critical variables, saying all options will require additional cost reductions. The difference in the amount of reductions is related to how much relief is received or if SOU reaches its enrollment projections.

President Schott added that the other variable is the ending fund balance the board would approve. The board previously asked the university to maintain at least an 8 percent ending fund balance. In the most dire scenarios, the administration would ask that it be reduced to 5 percent. As a reminder, President Schott said a 5 percent ending fund balance is about 3 weeks of operating expenses. Mr. Perkinson later said an 8 percent ending fund balance would be about 4-5 weeks of operating expenses.

Responding to Vice Chair Nicholson's inquiries, Mr. Perkinson clarified that the furloughs through the end of the current calendar year are already included in the pro forma. The estimated $1.5 million in projected reductions are for furloughs or layoffs for the second half of the fiscal year. The currently negotiated salary increases are included in the pro forma. President Schott reminded everyone that the projected reductions are examples of how the gap might be closed, they are not plans. This is not a good scenario but is the most realistic. The administration would do its best to come up with alternative ways to make the cuts that are the least damaging.

Vice Chair Nicholson expressed his concern about the timing of financial relief and any decrease in enrollment, noting that every week past the end of the fiscal year makes the ability to reduce costs more difficult as the time period decreases. Mr. Perkinson responded that the administration has implemented a plan to maximize cost reductions in the first half of the fiscal year. President Schott shared information on potential relief from the federal and state governments and stressed the importance of continued advocacy.

President Schott confirmed Chair Clough's comment that, if the committee approved one of the scenarios and a lever does not play out, this is a living budget and more changes would be needed. President Schott said a lot more would be known in October and Mr. Perkinson said he could envision presenting an amended budget at that time.

Mr. Perkinson reviewed the summary of expenditures by fund, included in the meeting materials. The proposed budget for fiscal year 2021 reflects scenario 2A. He stressed that there is so much uncertainty about what is going to happen in the fall; the figures are principally based on what was adopted last year. He explained that the proposed budget exceeds the fiscal year 2020 estimate to completion because the budget is a request for approval to spend, although cuts will be made to reduce the expenditures. Vice Chair Nicholson summarized the figures by saying the fiscal year 2021 proposed budget (after making $3.6 million in cuts) is the same as the fiscal year 2020 estimate to complete, even though there are known cost increases (e.g., negotiated salaries).

Trustee AuCoin moved to approve the resolution recommending the board adopt the fiscal year 2020-2021 budget, as presented. Trustee Lightman seconded the motion and it passed unanimously.

Chair Clough, several trustees and President Schott praised Mr. Perkinson and his team and thanked them for their hard work.

<u>Future Meetings</u>
Chair Clough said the committee's next meeting would be on October 15.

Adjournment
Chair Clough adjourned the meeting at 5:53 p.m.

Date: October 15, 2020

Respectfully submitted by,

Sabrina Prud'homme
University Board Secretary