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Governors State University Board of Trustees Budget and Finance Committee Meeting Minutes - December 11, 2009

Board of Trustees

GOVERNORS STATE UNIVERSITY
BOARD OF TRUSTEES
BUDGET AND FINANCE COMMITTEE

Minutes of the Friday, December 11, 2009 Meeting

Jack Beaupre, Chair

CALL TO ORDER AND ROLL CALL
The Budget and Finance Committee of the Board of Trustees met on Friday, December 11, 2009 in the William D. McGee Hall of Honors. The meeting was called to order by Committee Chair Beaupre at 10:27 a.m. Trustees Kristi DeLaurentiis, Lorine Samuels, Lois Mayer, Bruce Friefeld and Student Trustee Bryce Johnsen were in attendance.

Others present: Elaine Maimon, President; David Curtis, Interim Provost; Gebeyehu Ejigu, Executive Vice President and Chief of Staff; Alexis Kennedy, General Counsel; Joan Vaughan, Vice President of Institutional Advancement; Heikki Heino, Faculty Senate President; Carmin Garnica, Student Senate President; Jeffrey Slovak, Deputy Vice President for Administration and Finance; Karen Kissel, Associate Vice President for Financial Services and Comptroller; Sherilyn Poole, Associate Vice President for Student Affairs; Cathy Casson, Assistant Director for Financial Services; Tracy Sullivan, Director of Procurement and Auxiliary Services; and David Dixon, Internal Auditor.

ACTION ITEMS
Approval of Minutes
Beaupre entertained a motion to accept the minutes of the Budget and Finance Committee meeting of October 9, 2009. Samuels made a motion. Friefeld seconded. The motion was approved by unanimous voice vote.

INFORMATION ITEMS AND FORMAL REPORTS
Report on Purchases $50,000 - $99,999: September 2, 2009 – November 17, 2009
As required by Board Regulations, the report is included in the Board Book. Ejigu offered to answer any questions. There were no questions.

Report on GSU’s Debt Capacity
Ejigu opened by stating he was glad the question of GSU’s debt capacity was raised because it is part of the Board’s fiduciary duty to make sure that debt assumed is consistent with some deliberately understood guidelines. In the last two years, critical needs have been addressed through debt financing, and, in the process, considerable debt has been taken on. Ejigu turned to the report provided in the Board Book titled *Current and Projected Debt Service Burden and an Analysis of Debt Capacity*. Ejigu pointed out the first chart in the report, which gave an overall view of the current level of indebtedness. The University now carries five debt instruments. The first one will be paid off this year. The other four have maturities extending from 2019 to 2028.

Ejigu praised the Board for ensuring that each debt instrument has a dedicated revenue stream to pay it off. He explained that in trying to define a reasonable debt ratio for GSU, generally accepted practices were examined and three approaches were applied to the University's current debt to see where GSU stood. It was concluded that GSU's current level of indebtedness is materially lower, or at the lower end of the debt capacity ratio. Publications prepared for and distributed by NACUBO (National Association of College and University Business Officers), the largest higher education business officers' association in the country, suggest that a 4% to 5% range is reasonable, with a ceiling of 10%. There are indications that 7% used to be the ceiling; GSU's financial advisor suggests 5% may be more tolerable. Ejigu concluded by stating where the ceiling is set is a judgment of the Board based on their level of comfort, and it is important to establish a ceiling in order to structure debt in such a way that the ceiling is not exceeded.

Friefeld responded that given the financial conditions of public universities in the State of Illinois, a lower ceiling is preferable. GSU needs to be very careful about what projects are financed going forward because of so many unknowns in the State. Maimon added that one could argue that the "new normal" means public universities have to be more creative in identifying new revenue streams to pay off debt given the declining financial support of the State while following sound business practices that may make the debt ceiling higher. Friefeld replied that is a good point and should be part of the formulary before any new debt is issued. DeLaurentiis concurred with Friefeld regarding the comfort level of incurring debt, pointing out that GSU has taken on the challenge of deferred maintenance because the State refused to, thus letting the State off the hook. DeLaurentiis stated she would be very interested to know what the other state universities are doing in terms of incurring debt to fund projects that should in theory be paid by the State. Beaupre asked if the debt is basically being divided into two different categories, deferred maintenance and capital development. Maimon responded that the major renovation of E and F wings is a capital development project and GSU will not let the State off the hook for funding that. Maimon related that when she arrived at GSU she found to her dismay that even in years when the State economy was strong they were not funding deferred maintenance at any of the state universities. Each university took it upon themselves to charge fees to create a dedicated deferred maintenance revenue stream, however GSU had not. It has been well documented that GSU's deferred maintenance needs were such that they had to be addressed immediately, requiring the University to incur debt. DeLaurentiis reiterated that she would like further information on the debt burden of other universities and what kind of debt issues they have had, stating she is concerned that the public universities are not communicating to the State they are not satisfied with the State's poor response to their needs.

Samuels stated that in terms of debt she is conservative, but pointed out that when looking at debt and revenue streams it is important to remember they are a function of tuition and fees and therefore projections of future enrollment must be considered. Since the State may never step up to their responsibility to higher education, the University must take a critical look at its use of tuition and fee revenues because, at some point, that revenue may be needed to support general operations. Beaupre referred to Table 2 and asked if it represented only current revenue streams. Ejigu responded that in projecting the operating budget figures for years 2010 through 2029, the Administration was extremely conservative. He called on Jeff Slovak to elaborate. Slovak explained that the assumptions that guided the construction of Table 2 were quite conservative and deliberately so because of the risks involved with projecting 20 years out. The assumptions made to drive these numbers were: 1) tuition and fee revenue would grow over time, but would grow at a decreasing rate; 2) the pattern built into the appropriations data resembles a wave, i.e. 5 years up, 5 years down, etc. The historical pattern in appropriations over the last 20 years does show an increase, however it has not been a sufficient enough increase to cover the cost of living. Therefore it is being assumed that State appropriations will be constant or decreased; and 3) for this exercise state and federal grant funds were eliminated in order to project conservatively.

Ejigu referred to Table 2, pointing out that the projected operating budget in 2029 is actually lower than the current operating budget for 2010. Ejigu stated that he is not taking exception to the guidance from the Board to maintain a conservative posture; however, there are ways of restructuring the debt while maintaining a 5% ceiling. He concluded by stating that the issue of the "new normal" in fact suggests that institutions, in order to ensure their financial survival, must engage in reasonably aggressive strategies to diversify their revenue base. The primary source of revenue that GSU has control of comes from instructional services, meaning enrollment growth. In addition the University has significant resources including land and underutilized instructional space. The policies that the Board has adopted of late will allow the University to engage in a series of strategies to increase enrollment. Student housing is one of those strategies that will make the University more vibrant, increase growth, and serve students better. However, the Administration will abide by the Board's decision to maintain a low debt ceiling and work within those parameters to increase enrollment.

DeLaurentiis stated she is intrigued by President Maimon's suggestion that there may be a way to look strategically at student housing as a growth incentive, however she wanted to go on record stating she will not support another capital project until the E/F wing renovation is addressed. DeLaurentiis added that if the funds from the State for E/F do not come through in the next few years the University may perhaps have to take on the debt for the renovations, which are desperately needed, and are a priority for the University. Maimon responded by stating student housing is in an entirely different category than the E/F wing renovation because the dedicated revenue stream for housing would not come from tuition and fees. The contract for student housing would be structured so that student rentals would serve as the dedicated revenue stream. Another thing to take into account is opportunities such as the Build America Bonds. Maimon concluded by urging the Board to think in a different mode when talking about residential facilities. DeLaurentiis asked to clarify her statement regarding the amount of debt she is comfortable having the University carry, stating that she is very concerned GSU may not get the total sum of funds for the E/F renovation from the State, and the University has to be prepared to take on that debt itself. Friefeld reiterated the need for more information on the subject of student housing and funding of such. Beaupre thanked the Administration for clarifying a very complicated issue.

Report on Technology Fee Funds in Financing Student Needs and the ERP Initiative
Ejigu stated this report was being presented at the request of the Board. He provided a handout consisting of two tables, the first of which contained historical information on technology fee revenues and expenses for FY05-FY09. He pointed out that during that timeframe technology fee revenues have been distributed in three ways: 1) to academic units to address technology needs that support students in their respective college; 2) to support the technology needs of the library

and ITS, both of which support the technology needs of students; and 3) occasional allocations to support specific technology initiatives. The second table represents a projection of future revenues from the technology fee through 2020 and how those revenues are expected to be spent. Basically the same approach of distributing a portion of the fee to the academic units, the library, and ITS will continue to be used. A significant portion, mostly revenues generated from the $7.00 per credit increase that was approved by the Board last spring, will be set aside for the ERP initiative. Thus far the technology fee is generating significant revenues in order to support this initiative. DeLaurentiis asked for clarification on the current technology fee. Slovak replied it currently is $17.00 per credit hour, starting in fall 2009. DeLaurentiis asked why allocations to the academic units have been declining and how is that impacting students. Slovak responded that the table represents actual technology fee dollars allocated to the various colleges, but it does not include technology expenses funded through allocations that encompass technology. For example, last year some of the College of Arts and Science's technology needs were addressed through the strategic initiative. Slovak pointed out the table demonstrates that expenditures to update equipment have been high for the typical student that uses GSU's public computers.

Ejigu concluded by stating it seemed abundantly clear that the Board's desire is to make sure revenues generated from the technology fee go to support the technology needs of students. That can be witnessed by the current hardware and software now in place in all the labs. In FY10, not shown in the first table, $200K was allocated for upgrades in the labs where there were four-year-old workstations. Those upgrades will continue, and at the recommendation of the PBAC IT Committee a policy is being developed by which technology equipment will be replaced at regularly scheduled intervals. Beaupre thanked Ejigu and Slovak for their report.

Internal Auditor Annual Report

Ejigu introduced David Dixon, Internal Auditor, whose responsibility it is to ensure the Board's fiduciary duties are carried out for the University. The Internal Auditor reports directly to the president, and provides an annual report to the Board, which is included in the Board Book. There were no questions.

PREVIEW OF FUTURE AGENDA ITEMS

Johnsen questioned when PBAC will come before the Board with proposed tuition and fee increases. Ejigu explained this will be discussed at the April meeting. At this time it is unclear what kinds of increases will be recommended given the many uncertainties in the State budget. Ejigu also stated that at the next meeting it is the intention of the Administration to bring before the Board a vendor or vendors for the ERP initiative. An RFP is being issued right after the first of the year.

PUBLIC COMMENT
Beaupre congratulated Heino for his election as Faculty Senate President.

Beaupre entertained a motion to adjourn. DeLaurentiis made a motion. Samuels seconded. The motion passed by unanimous voice vote. The Budget and Finance Committee adjourned at 11:16 a.m.

Respectfully submitted,

Joan Johns Maloney