

**Minutes of the Special Meeting of the Board of Regents Finance Committee
Murray State University
November 12, 2018**

Call to Order/Roll Call

The Murray State University Board of Regents Finance Committee met in Special Session on Monday, November 12, 2018, in the Pogue Library *Jesse Stuart Room* on the main campus of Murray State University. Finance Committee Chair Daniel Kemp called the meeting to order at 10:40 a.m. and reported that, in addition to himself, the following Finance Committee members were present: Eric Crigler, Katherine Farmer, Jerry Rhoads and Phil Schooley. Absent: none. Other members of the Board of Regents present included: Sharon Green, Susan Guess and Don Tharpe. Regents Virginia Gray, J. T. Payne and Lisa Rudolph were unable to attend the Special Meeting of the Finance Committee.

Others present were: Robert L (Bob) Jackson, Interim President; Jill Hunt, Senior Executive Coordinator for the President, Coordinator for Board Relations and Secretary to the Board; Mark Arant, Provost and Vice President for Academic Affairs; Jackie Dudley, Vice President for Finance and Administrative Services and Treasurer to the Board; Don Robertson, Vice President for Student Affairs; Adrienne King, Vice President for University Advancement; Robert Pervine, Associate Provost for Graduate Education and Research; Robert Miller, General Counsel; Joyce Gordon, Director of Human Resources; Jordan Smith, Director of Governmental and Institutional Relations; Renee Fister, Director of Institutional Effectiveness and Strategic Planning; Kevin Jones, Interim Director of Facilities Management and Associate Director of Facilities Operations; Jason Youngblood, Associate Director of Facilities Design and Construction; the collegiate Deans and members of the faculty, staff, students, news media and visitors.

Call to Order

Committee Chair Dan Kemp

Fiscal Year 2019 Budget Plan*

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

Fiscal Year 2020 Budget Proposal*

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

Transitional Voluntary Retirement Contracts*

Provost/VPAA Mark Arant

Policy Changes*

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

- A. *Personnel Policies and Procedures Manual – Policy V B – Teacher’s Retirement System (TRS)/ Optional Retirement Program (ORP) – Sick Leave Credit*
- B. *Personnel Policies and Procedures Manual – Policy IV D – Holidays – Compensation for Regular Employees*

Fiscal Year 2020 Budget Guidelines*

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

Moody's Presentation to the Council on Postsecondary Education for the Commonwealth of Kentucky (For Information Only)

VPFAS Jackie Dudley

Unrestricted Reserves Update (For Information Only)

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

Compensation Study Pause Update (For Information Only)

**Int. President Bob Jackson/
VPFAS Jackie Dudley**

Other Business

Adjournment

(*Requires Board of Regents Finance Committee Action)

Dr. Jackson expressed appreciation to all involved in Fiscal Year 2019 (FY19) and Fiscal Year 2020 (FY20) budget planning. Enrollment pressures continue to impact the budget and appropriation changes over the last many years also must be taken into consideration. Performance Funding, deferred maintenance and the state pension system continue to be items which must be factored into the budgeting process. Budget priorities include a cost-of-living adjustment (COLA) for faculty and staff and addressing deferred maintenance in a more enhanced way for both Education and General (E&G) and auxiliary facilities. The overall budget for FY20 is conservative and does not include increased revenue from enrollment even considering the positive recruiting efforts which are underway. Enhanced marketing efforts and image building will be key to all work undertaken moving forward and identifying a way to continue this in future years will also be a priority. Enhancements continue to be made related to retention initiatives to increase enrollment. Discussion will focus on savings and efficiencies to help with budgeting efforts and voluntary retirement incentives will be proposed. A report will also be given regarding reserves and how those have been used in the past and what the University's debt level is today.

Fiscal Year 2019 Budget Plan, approved

Ms. Dudley reported that the estimated tuition and mandatory fee shortfall for FY19 due to the enrollment decline and mix of students is \$4.5 million. This is based on estimating Fall 2018, from September 2018 data, and Spring and Summer 2019. In order to cover this shortfall, appropriated budgeted balances (departmental funds) for FY18 that were not released in FY19 total \$2.5 million. Confirmation was provided that departments will not receive these carryovers and this has been the case for these funds over the past several years. The \$2.5 million remaining in this fund will be combined with the FY19 operating budget contingency not expended (\$2 million) for a total of \$4.5 million. During this current year a hiring chill has been implemented which requires an additional level of strategic review for any positions before they are filled and this will serve the University well as the year progresses. Efforts are underway to preserve one-time savings and this includes limiting new hires. New hires will not be added to the payroll until after the first of the year in order to save on holiday pay. A one-time exception to current policy is also being requested. Policy currently requires an individual leaving the University to work the day after a holiday in order to receive holiday pay. The exception would not require an individual who resigns or retires in December to work in January in order to receive holiday pay.

On behalf of the Finance Committee, Mr. Rhoads moved that the Board of Regents, upon the recommendation of the President of the University, approve the Fiscal Year 2019 Budget Plan as outlined. Mr. Crigler seconded and the motion carried.

This recommendation will be presented to the full Board for consideration at the Quarterly Meeting in December.

Fiscal Year 2020 Budget Proposal, approved

Ms. Dudley reported that information was included in the eBoard book related to Fiscal Year 2020 (FY20) recurring uses and sources. This included an explanation of the Transitional Voluntary Retirement incentives and the project management assessment model. Highlights outlined included:

- The Performance Funding Model for the upcoming year has a 1 percent stop-loss provision. Murray State's estimated amount of that stop-loss provision, as indicated by the Council on Postsecondary Education (CPE), is \$433,100 and that is being included as a contingency in the budget. This is being included as a need in the budget because it is not known how the University will fare under the Performance Funding Model. Although Murray State may perform very well, the Performance Funding Model is based on size and volume.
- The tuition and mandatory fee reduction of \$4.5 million for FY19 flat enrollment is also being carried over to the FY20 budget.
- A routine and deferred maintenance budget in the amount of an additional \$1 million has been included.
- A COLA of 1 percent is included for faculty and staff which includes funding for the third and final year to reach the \$10.10 per hour minimum pay for regular, non-exempt employees. This budget line item totals \$907,346.

- These proposals have been shared with the Budget Advisory Council which is comprised of faculty, staff and students as well as with the faculty and staff leadership groups. The recommendation regarding the \$10.10 per hour was actually advanced from the Budget Advisory Council to enhance the salaries of lower-paid employees.
- Fixed costs in the amount of \$107,000 are included for faculty promotions and awards.
- The standard increase of 3 percent (\$60,000) for liability and property insurance is also included as a line item in the budget.
- Slightly over \$78,000 has been included for a retention software upgrade to better meet the University's needs and a \$150,000 increase has been included for recruitment marketing. Confirmation was provided that the \$950,000 the Board previously approved for the enhancement of marketing efforts was funded from one-time dollars and this line item increase of \$150,000 is recurring as a way of carrying forward initiatives which are started with the \$950,000. The enhanced marketing contract will be presented at the Quarterly Board Meeting in December for final approval. Confirmation was provided that there are marketing dollars in Enrollment Management, University Advancement and in the academic colleges (through the Deans). Up to this point the Murray State marketing budget has not been centralized but doing so could lead to brand consistency, greater control over marketing efforts and other efficiencies. Confirmation was provided that the intent is for this funding to be utilized in a centralized manner because enhancing yield marketing efforts represents a critical need for the University. Confirmation was provided that the marketing firm that will be hired has been asked to review this topic first and foremost.
- New scholarship and discount incentives are in place for Fall 2019 and gross revenue has been budgeted to cover the cost. An increase of \$1.2 million (based on an additional 140-150 resident students) is being budgeted in tuition and fee growth due to new scholarship efforts and the fourth year grid funding. Clarification was provided that if there is a different mix of students it will not take as many to reach the \$1.2 million. The \$1.2 million in funding will be used to cover the cost of the new scholarship and discount initiatives to break even. Confirmation was provided that the Illinois Housing Scholarship initiative is helping move students from admitted to enrolled status and that a quantitative analysis is utilized when developing these discount incentives to determine a break-even point. For every discount offered there is an associated schedule based on data and expected enrollment in a particular scholarship model. The modeling assumptions utilized are the most conservative.
- Another budget element will be a projection of the impact of the retirement contribution increase for the University but that it not yet known for FY20. The contribution the University makes for Kentucky Employee Retirement System (KERS) employees is over 49 percent and this amounts to approximately \$5 million per year as the employer contribution. It is expected that this rate could increase to 84 percent. The contribution the University makes for Teachers' Retirement System (KRS) employees is 15.96 percent as an employer match. It is possible this rate could increase to 30 percent. If these increases materialize it will be quite significant in terms of cost to the University. Senate Bill 151 is currently in the courts and a ruling is expected following the elections but before the end of the year. Confirmation was provided that a level-funding proposal is also being considered by the state. Level funding relates to the overall liability and the three-year average for 2014, 2015 and 2016 to determine the liability and charge the institutions on a level amount per year. This means the University could receive an invoice from the retirement systems for \$4 million per year and that would not change for up to 30 years. This figure also does not change if the University decreases its payroll. Once the level funding amount is set, each of the schools would pay a flat amount for 30 years and this represents a significant obligation. The ruling of the courts will be known but the University will still have to wait to hear from the retirement systems in terms of how they calculate the level-funding amount. The Board will continue to be updated in this regard.
- The total of these needs and uses is \$7.2 million today. Information was presented on how the University proposes to cover this cost. Last year during the budget planning process Academic Affairs identified reductions that could be made but would not be realized until FY20 (\$106,000). A 3 percent overall budget reduction to each executive level (President, Vice Presidents and Athletics) is also proposed. These two sources would result in approximately \$3.6 million.
- Additional initiatives which will help fund needs and uses are transitional voluntary retirement program enhancements, sick leave credit purchase from TRS and the Optional Retirement Program (ORP) and the elimination of select positions and program efficiencies. The transitional voluntary retirement program enhancement will primarily impact academics because they are only offered to faculty. These additional changes are being recommended

in an effort to ease the burden on academics. The transitional voluntary retirement program and the sick leave credit are current University policies and changes can be made accordingly.

- The tuition rate increases for undergraduate and graduate students have not yet been determined. A 1 percent increase would amount to a net tuition of \$610,000 and a 3 percent increase would total approximately \$1.8 million. Confirmation was provided that this year's enrollment is being utilized to project these amounts and the rate increase is being applied to flat enrollment. Also being considered is a project management fee for all facilities and Information Technology projects that would be used to fund routine and deferred maintenance pools. The fee would be assessed on projects which are funded internally – such as the Waterfield Library project. The fee would also be applied to privately-funded projects from the Murray State Foundation or a bond-funded project. Staff spend a great deal of time on the various projects occurring across campus from a project management standpoint. It is being proposed that a fee schedule be developed to charge those projects a certain percentage for project management. The project management fee would then be utilized to help fund a portion of the \$1 million deferred maintenance item outlined earlier.
- The overall need is \$7.2 million and Academic Affairs will help cover approximately \$3.6 million of that amount. This leaves a balance of almost \$3.7 million which must be identified (not including the tuition rate increase and the project management fee) from additional recurring revenues, reallocation and reductions. Last year the CPE approved a 6 percent tuition cap over two years. Murray State increased tuition by 3 percent last year and would be limited to a 3 percent increase this year.

On behalf of the Finance Committee, Mr. Rhoads moved that the Board of Regents, upon the recommendation of the President of the University, approve the Fiscal Year 2020 Budget Proposal as presented. Mr. Crigler seconded and the motion carried.

This recommendation will be presented to the full Board for consideration at the Quarterly Meeting in December.

Transitional Voluntary Retirement Contracts, approved

Dr. Arant reported that three changes are being recommended related to the current transitional voluntary retirement contracts for faculty. The first would provide the option of a three-year transitional voluntary retirement contract, in addition to the one- and two-year transitional contracts that are currently available. The request is also being made for sick leave credit buyback to be an option for those faculty retiring as of June 30, 2019. Current policy requires that faculty choose the transitional retirement contract or the sick leave buyback. The current policy also has a different rate compensation for the first and second year of the contract. The proposal being advanced would make the rate of compensation the same for all three years of the transitional retirement contract at the higher rate of 3.75 percent per credit hour (maximum of 45 percent of base salary). This option also would not be available for faculty retiring after June 30, 2019, and the University would revert to the current policy and not provide the sick leave option in conjunction with the transitional retirement contract. Approval will be required from the department Chair, Dean, Provost, President and the Board of Regents (for two- and three-year contracts). Faculty members will be required to notify the University of their decision by February 18, 2019, to allow time for those contracts to be submitted to the Board for approval. Confirmation was provided that this will allow the Deans to balance out staffing in their colleges. Historically, a small number of faculty have chosen the Transitional Faculty Retirement option and to encourage more participation the enhancements of a three-year contract, increased rate of pay and sick leave buyback are being added. Ms. Dudley added that the recommendation being advanced today related to the policy statement on sick leave credit will sunset on June 30, 2019, and this applies to both faculty and exempt staff. Confirmation was provided that currently the policy allows – either academically or administratively – for the purchase of one-half of a year of service credit (per the retirement systems) for faculty and exempt staff.

Information included in the eBoard book denoted that on December 4, 2014, the Board of Regents approved a Transitional Faculty Retirement Program designed to permit full-time faculty to officially retire from Murray State University and return to instruction in high-need areas, transitioning programs and in special circumstances. Key points of the current program are as follows:

1. The faculty member enters a special category of faculty known as “Transitional Faculty.”
2. Transitional faculty do not retain their tenure status but may receive a transitional contract approved by the Board of Regents. Transitional faculty retain their academic rank.
3. Faculty who retire and become transitional faculty may receive retirement benefits for which they may be eligible from either the Teachers’ Retirement System or the Optional Retirement Program.
4. Transitional contracts are 9-month contracts that begin and end on the same dates as regular 9-month faculty contracts.
5. Transitional contracts are either one or two years in length. All two-year contracts are approved at the beginning of the contract timeframe. Renewals and extensions are not permitted.
6. All contracts must be justified by a need that benefits the University and are not automatically awarded to an applicant.
7. One-year contracts may be approved by the President. Two-year contracts must be approved by the Board of Regents.
8. Faculty must have completed a minimum of six (6) years of full-time service before applying for a Transitional Contract.
9. Faculty who hold an administrative appointment must return to the regular faculty and establish a 9-month base salary before applying for a Transitional Contract.
10. An approved Transitional Faculty member may teach a minimum of six (6) and a maximum of twelve (12) semester hours per year but must also comply with TRS and ORP policy – as applicable (no web-based model compensation is available).
11. Special service designations (e.g. accreditation) may be included as part of the contract.
12. Faculty on one-year contracts will be compensated at 3.75 percent per credit hour of the prior year 9-month base salary, up to a maximum of 45 percent of base salary. Faculty on two-year contracts will be compensated at 3.50 percent per credit hour of the prior year 9-month base salary, up to a maximum of 42 percent of base salary for each year of the two-year contract.
13. Participants in the two-year program are eligible for any cost-of-living adjustment that the University may provide but are not eligible for merit-based adjustments.

Under current policy, a faculty member who enters into a Transitional Contract is not eligible to receive a sick leave credit payout (if enrolled in an ORP plan) or purchase of service time (if enrolled in TRS).

In order to facilitate budget planning and incentivize retirements, the following changes in red are proposed for any faculty member who notifies the University of his/her retirement, in writing, by and with an effective date of June 30, 2019:

5. Transitional contracts are either one, two **or three** years in length. All two- **and three**-year contracts are approved at the beginning of the contract timeframe. **All Transitional Contracts must be approved by a faculty member’s Chair, Dean and the Provost.** Renewals and extensions are not permitted.
7. One-year contracts may be approved by the President. Two- **and three**-year contracts must be approved by the Board of Regents.
12. Faculty on one-, **two- or three-year contracts will be compensated at 3.75 percent** per credit hour of the prior year 9-month base salary up to a maximum of 45 percent of base salary for each year of their Transitional Contract.

Specifically, the following changes in bold are proposed to the plan:

- A. A three-year option is added, which will not be available for faculty **retiring after June 30, 2019.**
- B. An increase in the compensation to 3.75 percent per credit hour for two- and three-year options, which **will not be available for faculty retiring after June 30, 2019.**
- C. A faculty member who enters into a Transitional Contract is eligible to receive a sick leave credit payout (if enrolled in an ORP plan) or purchase of service time (if enrolled in TRS), up to the maximum allowed by statute. **Employees who retire after June 30, 2019, will no longer be eligible to receive a sick leave credit payout or purchase of service time.** Faculty who retire after June 30, 2019, may request a one- or two-year Transitional Contract as previously described.

On behalf of the Finance Committee, Mr. Rhoads moved that the Board of Regents, upon the recommendation of the President of the University, approve adding a three-year option and the increase in compensation to 3.75 percent for two- and three-year contracts, both effective upon approval and with these specific enhancements ending June 30, 2019. Mr. Schooley seconded and the motion carried.

This recommendation will be presented to the full Board for consideration at the Quarterly Meeting in December.

Policy Changes, approved

Personnel Policies and Procedures Manual – Policy V B – Teacher’s Retirement System (TRS)/Optional Retirement Program (ORP) – Sick Leave Credit

Ms. Dudley reported that the sick leave buyback option currently costs the departments approximately \$150,000 per year on a recurring basis. These departments will now not be required to expend these resources which can instead be utilized for programming enhancement. This will not be a line item in the budget but it does relieve the departments from having to pay these costs. Confirmation was provided that this policy change applies to employees in the ORP or TRS systems (faculty and administrators). KERS statutorily requires sick leave purchase upon retirement so the University does not have any options in regard to this population. Dr. Jackson indicated that this change has been discussed with the Budget Advisory Council, faculty, staff and students and the various leadership groups and will be shared with the Insurance and Benefits Committee this week.

On behalf of the Finance Committee, Mr. Rhoads moved that the Board of Regents, upon the recommendation of the President of the University, approve the revision of *Personnel Policies and Procedures Manual – Policy V B – Teacher’s Retirement System (TRS)/Optional Retirement Program (ORP) – Sick Leave Credit* to sunset the purchase of sick leave credit for TRS retirees, as well as the payment at the point of retirement for ORP participants, effective July 1, 2019. Mr. Crigler seconded and the motion carried.

This policy change will be presented to the full Board for consideration at the December 7, 2018, Quarterly Meeting.

Personnel Policies and Procedures Manual – Policy IV D – Holidays – Compensation for Regular Employees

On behalf of the Finance Committee, Mr. Schooley moved that the Board of Regents, upon the recommendation of the President of the University, approve the one-time exception to the holiday policy that would allow eligible employees who retire or resign as of January 1, 2019, to be compensated for holiday pay without being on the payroll on January 2, 2019, which is the day following the holiday period. Ms. Farmer seconded and the motion carried.

This policy exception will be presented to the full Board for consideration at the December 7, 2018, Quarterly Meeting.

Fiscal Year 2020 Budget Guidelines, approved

Ms. Dudley reported the following with regard to the FY20 Budget Guidelines being submitted for approval which will allow the University to move forward in the budgeting process:

- The \$4.5 million shortfall outlined earlier is included and budgeting of flat enrollment for 2019-20 is assumed.
- Enrollment goals approved by the Board in January which are included in the Strategic Plan were provided and are part of the guidelines. No growth is being budgeted except that needed to cover scholarships and discounts as outlined earlier.
- The budget will continue to include a \$2 million contingency which has been recurring since Fiscal Year 2016 as a protection measure.
- A 1 percent COLA for faculty and staff is planned and includes meeting the third and final year of the plan to reach a minimum hourly rate for regular, non-exempt employees of \$10.10 per hour. Part of the Budget Guidelines include the Board instructing the administration to continue to identify ways to include a budgeted and stable COLA. A chart

was included showing where the University has been for the last ten years in terms of salary increases for employees compared to the Consumer Price Index (CPI) and the associated cumulative difference. Salary increases have been below the CPI over the past ten years which further supports including COLA in the budget for FY20.

- Information was also included on facilities and infrastructure deferred maintenance. This includes 839 acres for which the University is responsible, 86 core buildings maintained (classroom and administrative) for total gross square footage of 3,924,058 and 85 other structures (barns and storage facilities) for total other square footage of 197,326. There are 171 total structures and slightly over 4.1 million total gross square feet of space to maintain. Confirmation was provided that the total gross square footage includes housing. Information was also provided on when core building facilities were constructed which shows that 20 percent were built prior to 1960 (18 buildings), 41 buildings (44 percent) were built in the 1960s and 1970s and 36 percent (27 facilities) were constructed between 1980 and the present. Assets owned by the Murray State Foundation and leased back to the University for \$1 per year include Eagle Rest Plantation, Sorority Suites and the Hutson Farm. These are revenue-generating properties and those revenues are maintained by the Foundation and the University and to be used for deferred maintenance at those locations. A Management Agreement with the Foundation is in place that signifies the University provides routine maintenance to those facilities and major maintenance is done by the Foundation.
- Due to significant and ongoing routine and deferred maintenance issues, funding increases for this purpose is a budget priority. Budget will specifically be identified from Consolidated Educational Renewal and Replacement sources for the existing roof replacement plan of \$500,000 and parking/maintenance and technology infrastructure plans will continue to be budgeted for \$233,190 and \$397,000, respectively. Two new facilities/infrastructure pools are being proposed. One will be specifically for scheduled and routine maintenance for life safety projects such as replacement of emergency generators, emergency lighting and other planned replacements. A second funding pool is proposed for scheduled and routine exterior campus improvements such as lighting, building and directional signage, waste receptacles, benches, specific landscaping projects (not including routine landscaping needs), painting, pressure washing of buildings, sidewalk repairs, etc. The goal is to increase the annual deferred and routine maintenance funding pools from \$2.5 million for 2018-19 to \$3.5 million for 2019-20, which is close to a 40 percent increase. A comprehensive facilities assessment will be conducted by the CPE in Spring 2019 and a long-term plan will be a component of future planning. Confirmation was provided that Facilities Management is addressing deferred maintenance needs as they arise to the best of their ability with the resources provided. The CPE facilities assessment will help with developing a comprehensive plan for auxiliary facilities and E&G buildings. The current budget situation all universities are facing make this work even more challenging. Additional information will be presented at the Quarterly Meeting in December regarding major projects and the associated timeline. The next stage of this work will be the CPE audit which will begin in the Spring for E&G buildings – not auxiliary facilities.
- A schedule of what has been expended for routine and deferred maintenance is being prepared for the December meeting. This is \$2 million more than what is budgeted but could be covered with one-time or third-party funds. The University asset total is approximately \$331 million gross, not including accumulated depreciation. The University tried to focus 5 percent of funding for deferred maintenance needs but that could not be sustained and has now been changed to 2.5 percent based on the current tuition and fee structure. This funding is not always included in the budget and can be from one-time sources.
- Expenditures for deferred maintenance in the residence halls during 2018-19 was \$872,000. A survey was conducted in early Fall 2018 to learn the specific priority housing needs and wants of students with an approximate 10 percent response rate. The results of this survey will be shared through the Buildings and Grounds Committee at the Quarterly Board Meeting in December. Most importantly, a comprehensive housing plan will be developed in order to better address future needs as well as deferred maintenance in all housing areas. Discussion will include public-private partnerships and whether some housing facilities should be razed or renovated and if new buildings are feasible. A determination must first be made regarding rightsizing the Universities housing stock and an outside firm will be hired to assist with this work.
- The University's Housing Strategic Plan was developed and approved by the Board in 2013 and is currently being followed. A study was conducted by the housing consulting firm of MGT of America. The purpose of the study was to look at the current housing stock and help the University determine whether renovation or replacement would be best. This

included discussion on room designs and what students were looking for at that time. The study included the expected occupancy level in each residence hall, the bond size that would be required and the associated repayment and costs and revenue for those residence halls. Under this plan, Hester Hall was the first facility renovated in 2015. New Franklin Hall construction was started in 2016 according to the plan. White Hall was scheduled for renovation in 2018 following completion of Franklin and the University has legislative bonding authority to complete this project. Following the renovation of White Hall, the Housing Strategic Plan called for a new residence hall to be built in 2020 and the renovation of Regents Hall in 2021. The plan was developed at a time when enrollment and the associated residence hall occupancy were at much different levels than they are today. An effort is being made to utilize portions of the plan provided by MGT and rightsizing it to determine whether the project dates and number of beds needed are correct. Current modes of instruction are geared toward online and hybrid options and this presents a challenge for residential campuses. The new plan will take into consideration where the University is today because five years ago the institution had record enrollment. The previous plan also did not take deferred maintenance into consideration. The new plan will prioritize, schedule and address those needs in a different manner. Confirmation was provided that the incident at JH Richmond also disrupted the housing plan. A Request for Proposals for an architectural and engineering (A&E) firm is expected to be issued soon. Information obtained from the MGT study related to financing, costs and debt can still be utilized as this process moves forward but a determination must first be made regarding the type of facilities and number of beds needed. The A&E firm can help determine whether renovation or rebuilding is the best course of action based on the number of beds needed. New Clark Hall was built in 2007, Richmond Hall was built in 2009 and Elizabeth Hall was renovated in 2010 – all before the MGT study was commissioned. The enrollment decline and the JH Richmond incident have caused the administration to rethink what is needed. The low rises which were closed according to the MGT plan had to be reopened for overflow for students who were living in JH Richmond. Once JH Richmond reopens a determination must be made in terms of what needs to be done with the low rise residence halls and whether they should be razed or maintained for overflow as additional housing facilities are renovated.

- Discussion occurred on the residence hall occupancy rate and it was confirmed that the low occupancy rate in the two low rise facilities being used for JH Richmond overflow is due to not all rooms being available for use and the inability to combine male and female genders on the same floor. Confirmation was provided that the optimal occupancy rate would be 95 percent while maintaining some flexibility in terms of an overflow residence hall.
- Certain employee benefits and fixed costs increases will have to be funded in the budget, including utilities, networking/phone system upgrades, employee health insurance, retirement, property and liability insurance.
- Voluntary retirement incentives include the Transitional Retirement Contract extension from a maximum of two years to three years and an increase to 3.75 per credit hour (45 percent of full base pay) as discussed earlier. A recommendation has also been made to continue the TRS/ORP purchase of accrued sick days for service credit for only those individuals that retire with effective dates on or before June 30, 2019. This portion of the policy will also end on June 30, 2019.
- Related to retirement, pension funding continues to be an overriding budget constraint for the Commonwealth. The University will continue to monitor the status of the state pension systems and any future impact their funding could have on appropriations or increased contribution rates.
- In regard to utilities, conversations with the Tennessee Valley Authority and Murray Electric are occurring regarding changes in electrical rates over the next twelve-month period. At this time no additional increases in the utilities budget are being considered.
- Confirmation of insurance premium estimates have not been received as of this date but an estimated increase in premiums of 3 percent for 2019-20 is planned.
- Added designated funding will be included in the budget for specific marketing of the University to support recruitment, retention, promotion of academic programs and overall image enhancement.
- Pension funding and the Performance Funding Model will be the largest factors affecting future state appropriations. Background information on performance funding was included in the eBoard book.
- Tuition and mandatory fees were discussed earlier as well as scholarships, waivers and discounts.

- A summarized budget calendar was also included for approval as part of the budget guidelines. This outlines how the University will be able to formulate the budget for Board approval at the Quarterly Meeting on June 7, 2019.

On behalf of the Finance Committee, Mr. Rhoads moved that the Board of Regents, upon the recommendation of the President of the University, approve the Budget Preparation Guidelines and the proposed calendar as presented. Ms. Farmer seconded and the motion carried.

The Budget Preparation Guidelines and the proposed calendar will be presented to the full Board for consideration at the Quarterly Meeting in December.

Unrestricted Reserves Update (For Information Only), received

Discussion focused on unrestricted reserves for the past five years, including the use of these reserves for the same period. Information was provided on Unrestricted Net Position over a five-year comparison period (Fiscal Year 2013 – Fiscal Year 2018), Unrestricted Net Position – Plant Fund Designations and Schedule of Reserves Used (Fiscal Year 2014 – Fiscal Year 2018). It was also indicated that an effort has been made to use unrestricted reserves according to best practices outlined by Moody's. Ms. Dudley highlighted the following:

- The amount allocated for departmental operations and encumbrances – or carryforwards – represents funding from course and online fees that has accumulated over time to be used for specific projects and the funding has already been allocated for those purposes.
- Information presented also included prepaid expenses and amounts due from grants which are E&G expenditures due to the University from grants and contracts that it manages.
- Plant fund expenditure information was provided as well as working capital totals which are receivables not available to the University to use – such as change funds and inventories.
- A revenue contingency has historically been built into the budget which is a one-time contingency (50 percent of state appropriation) as a designation of unrestricted net assets. The general contingency is what is considered to be the University's General Fund savings account and these funds have not been allocated for particular projects. The budget also historically includes a reservation for self-insurance claims. These are known claims which have been incurred in the prior year that have not yet been paid out. If claims arise over and above what premiums would cover – because the University is self-insured – those claims would be paid from the general contingency. The total unrestricted net position before the pension adjustment is \$126.9 million and if all these funds were used this provides 240 days of coverage. This means the University could pay its standard bills for 240 days. The standard for Moody's is six months to one year.
- The pension adjustment to unrestricted net assets was also provided and represents a factor of the pension liability the University is required to carry as its share according to the audits of the retirement systems. This is the amount that has to be taken out of the unrestricted net position to book the pension liability which results in a negative total unrestricted net position. Under this scenario the days covered ratio is also in the negative.
- The University currently has bond liabilities of \$77.5 million and this represents debt only. There is \$23 million in interest on that debt as it pays out. Only the liability is booked for debt but as it is paid interest is expensed. A revenue contingency of approximately \$2.3 million and self-insurance claims (approximately one month) have been backed out leaving an adjusted total unrestricted net of \$46.4 million. This is very similar to the University's general contingency and provides a coverage ratio of 91 days (three months) if expenditures are paid with no incoming revenues.
- The balances in these pools are a result of not releasing carryforwards back to the department at year end in preparation for budget scenarios which could arise in the not too distant future.
- A listing of plant fund designations, with the associated amount, was provided and total \$37.2 million from unrestricted reserves as of June 30, 2018. This is used for projects that have been funded from E&G dollars that have not been expended whether the project is still underway or has not started. Some projects on the listing provided have now been concluded and the monies expended because the date of the information provided is June 30. The \$3 mandatory fee for the Wellness Center is collected in one pool and has been restricted by the Board for debt on that facility. The city of Murray issued general obligation bonds and loaned those to the institution to build the Wellness Center. The University pays back the principal and interest on that debt each year but the city of Murray holds the bonds for the debt.

- The Board restricted funding for the Enterprise Resource Program (Banner system) several years ago. The remaining funding has now been designated for the 2018-19 marketing campaign pool.
- Approximately \$400,000 has been designated for the campus electrical systems project. Additional funding from the deferred maintenance pool has been identified to be added to the electrical systems pool in the amount of \$3.6 million. This funding will be used to complete the first phases of the plan to begin addressing electrical system needs.
- The Board has designated approximately \$2 million for Biology Building and HVAC repairs. The Biology Building has been remediated but it has taken a significant amount of time to get the bid document out to get these repairs done given other issues which have arisen in the facility. The bid documents are being prepared and it is hoped they will be issued soon.
- The Board designated approximately \$2 million for the University's share of enhancements to Richmond Hall.
- One-time funds have been set aside as a contingency for Information Technology maintenance and there is \$4.6 million in deferred maintenance funding for housing. The housing major renovation or replacement pool is funded from interest reimbursements from bonds and other reserved funds from housing dollars. These funds represent all that is available to be used to fund the next housing projects once determined.
- The schedule of reserves used included a listing of projects the Board has approved funding from reserves. Information on the status of these projects was also presented. In 2014, funds were designated for American with Disabilities Act (ADA) work to be undertaken in Pogue Library. It has been difficult deciding how best to address those ADA needs in a historic building and that is the reason the project has not moved forward. In December the Board will be asked to approve repurposing this funding to be used for tuck-pointing, roofing water intrusion review, adding drainage around the foundation and interior Board room repairs in Pogue Library because these projects are more critical to the structure of the facility.

This report was for informational purposes only and required no Committee action.

Adjournment

The Board adjourned for lunch at 1 p.m.

Reconvene

Committee Chair Kemp reconvened the Special Meeting of the Board of Regents Finance Committee at 1:45 p.m.

Moody's Presentation to the Council on Postsecondary Education for the Commonwealth of Kentucky (For Information Only), received

Dr. Jackson reported that the University stays in constant contact with Moody's which rates the University's bonds. Moody's presentation to the Kentucky Council on Postsecondary Education in September 2018 was provided in the eBoard book. One graph illustrates that changes in state funding across states vary widely. Seven large states – California, Texas, New York, Florida, North Carolina, Georgia and Illinois – accounted for one-half of FY18 state support for higher education. Their total increase for FY18 was 2.4 percent, compared to 0.9 percent for remaining states.

Information on Kentucky Higher Education Ratings was also presented and includes the public four-year universities and associated Senior Lien Rating and Outlook. The same information was provided for private four-year universities and the community college system. Current bond ratings were provided with the associated outlook – either negative or stable – and shows that no institutions in the state has a stable bond rating. Moody's takes into consideration enrollment and the pension issue and that has also impacted bond ratings. It was noted that state support now comprises less revenue than in 2008 for most universities. A chart was presented showing the 2008 state operating appropriations as a total of revenue compared to the same information for 2017.

Performance funding was also highlighted. The Performance Funding Model benefits some but at a loss for others. Information presented included a chart showing those institutions that received excess performance funds (Northern Kentucky University, Western Kentucky

University, Eastern Kentucky University and the University of Kentucky) and those that had a deficit (University of Louisville, Murray State and Morehead State University).

The state pension liability also adds a sizeable debt-like obligation to most universities. Moody's considers this to be a true liability and a chart was presented illustrating the impact on each of the universities in terms of total debt and adjusted net pension liability. This is significant for Murray State.

Information was presented on the total adjusted debt obligation (total adjusted debt to operating revenue) and for many institutions that exceeds the national median. Moody's recommends there be a two times revenue coverage ratio for debt. The ideal is to be able to cover debt with revenue at least one time and some schools fall below that threshold. Confirmation was provided that Murray State is better off in this regard than some of the other schools and compared to the national median.

This report was for informational purposes only and required no Committee action.

Compensation Study Pause Update (For Information Only), received

In 2017 Murray State University committed to a comprehensive review of both faculty and staff compensation levels in relation to its peers. Sibson Consulting was awarded the contract to manage this process. The consultants were on campus in June 2017 to meet with all stakeholder groups, including the President, Vice Presidents, Deans, Faculty and Staff Regents and Faculty Senate and Staff Congress leadership. Feedback from these constituency groups was used to develop a draft Compensation Philosophy and comparison markets and this information was shared with the Finance Committee, along with a copy of the Final Peer Group document.

The project was designed in three phases and faculty positions were reviewed in the first phase. The second group reviewed was exempt staff and the final phase was non-exempt staff. Human Resources provided the faculty census detail and the review was led by the Provost and Vice President for Academic Affairs, with Human Resources support. While the initial review was completed in early Spring 2018, the institutional financial situation changed the process in that all three groups needed to be reviewed before establishing the compensation targets for faculty. Human Resources continued to work closely with Sibson to provide detailed census data for exempt staff and non-exempt staff.

Dr. Jackson reported that as the process moved forward it became clear any information obtained would be antiquated fairly quickly because the University was unable to respond to any predictions being made. Consideration has been given to how to pause this study because to carry it forward would require additional cost for Sibson Consulting services and when the results are received it is unlikely the University would be able to adhere to most, if any, of the recommendations due to the state funding situation. Current budgetary challenges dictate that the compensation study be paused for now.

The Murray State Project Summary that provides an overview of what has been completed and what can be accomplished moving forward was also provided. Market data can be aged for two to three years which will keep a significant amount of the work that has already been done viable to continue the review at the appropriate time. Information on the sum of Murray State faculty salaries and the sum of the market median was provided in relation to the 68 institutions in the University's peer group. This data shows that Murray State faculty salaries are 92 percent of the market median. Confirmation was provided that the University would need to negotiate with Sibson Consulting to terminate the current contract. The faculty, staff and student representatives on the Budget Advisory Council were supportive of pausing the work related to the compensation study because the University would not be able to move forward with the resulting recommendations given the current budget situation.

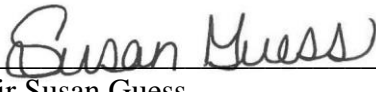
This report was for informational purposes only and required no Committee action.

Other Business/Adjournment

There being no further business to come before the Board of Regents Finance Committee, Ms. Farmer moved to adjourn. Mr. Rhoads seconded and the motion carried. Adjournment was at 2 p.m.



Daniel Kemp, Chair
Board of Regents Finance Committee



Chair Susan Guess
Board of Regents



Secretary Jill Hunt

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