Minutes of the Special Meeting of the Board of Regents Finance Committee
Murray State University
November 21, 2017

Call to Order/Roll Call

The Murray State University Board of Regents Finance Committee met in Special Session on Tuesday, November 21, 2017, in the Curris Center Mississippi Room on the main campus of Murray State University. Finance Committee Chair Daniel Kemp called the meeting to order at 1:30 p.m. and welcomed those present.

The roll was called and, in addition to Mr. Kemp, the following Finance Committee members were present: Walter Bumphus (via phone), Katherine Farmer and Phil Schooley. Absent: Jerry Rhoads. Other members of the Board of Regents present included: Susan Guess, Lisa Rudolph, Don Tharpe (via phone), Stephen Williams and Tori Wood. Regent Green was unable to attend the Special Meeting.

Others present were: Robert O. Davies, 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 (via phone); Allen Ward, Director of Athletics; Renee Fister, Chief of Staff; John Rall, General Counsel and members of the faculty, staff, students, news media and visitors.

AGENDA

Call to Order	Finance Committee Chair Dan Kemp
Meeting Purpose: The purpose/goal of this Special Meeting of the Board of Regents Finance Committee is to have a Board discussion on the potential fiscal challenges in the forthcoming years that Murray State, like many other universities, will be facing. No final decisions will be made at the meeting.	
Roll Call	Secretary Jill Hunt
Potential Fiscal Pressures for Murray State University in Fiscal Year 2018-19 and Beyond	President Bob Davies/VP for Finance and Administrative Services Jackie Dudley
Current Budget Discussion a. Overview of Budget Functional Categories b. Perspective of Key Expenditures	President Bob Davies/VP for Finance and Administrative Services Jackie Dudley
Fiscal Year 2018-19 Review of Operating Revenue Sources	President Bob Davies/VP for Finance and Administrative Services Jackie Dudley
Cost Reduction and Avoidance Issues Overview	President Bob Davies/VP for Finance and Administrative Services Jackie Dudley
Other Business	
Adjournment	

It was stated that the purpose/goal of the Special Meeting of the Board of Regents Finance Committee is for the members to have discussion on the potential fiscal challenges in the forthcoming years that Murray State, like many other universities, will be facing. Other Board members were also encouraged to ask any questions they may have as the discussion progressed. It was not anticipated that any final action would be taken during the meeting.

Dr. Davies thanked the Board of Regents, as well as members of the shared governance bodies of Staff Congress, the Student Government Association and the Faculty Senate for participating in an educational opportunity presented earlier in the day regarding the fundamentals of the University's financial operations. The University Leadership Team – the President, Vice Presidents, Deans and other members of the team – have the goal of presenting to the Board of Regents a fiscal plan that lends itself to a fiscally sound and sustainable budget. There is currently great ambiguity regarding the fiscal condition of the University given unknown factors such as the pension crisis and revenue issues at the state level. Many of these challenges were outlined in the recent State of the University Address. Murray State is in great shape on many fronts. It is a high-quality, high-caliber University with national recognition for its academic programs. Dr. Arant and the Deans are being very innovative in terms of academic programming and providing new opportunities at both the undergraduate and graduate levels. The overarching concern for the University is the state pension crisis. Currently, for every dollar of wage for Kentucky Educational Retirement System (KERS) employees, the University pays 49 cents to the KERS system. If changes are not made, for the next fiscal year this contribution will increase to 84 cents for each dollar of wage. This is not a sustainable model and a determination must be made in terms of how the University can prepare for such a scenario and address the associated challenges.

Ms. Dudley guided the group through a discussion of potential fiscal pressure points for Murray State University in Fiscal Year 2018-19 and beyond focusing on the 4.6 percent enrollment decline which would amount to a $5.5 million estimated budget shortfall. Uncertainty related to state pension plan changes and cost factors could result in a $4.8 million estimated increase in costs. In addition, the full impact of the performance funding allocation and possible state appropriation reductions for Fiscal Year 2019 are not known. The University's current base appropriation is $43.6 million and any reduction will be applied to that amount. Of this amount, $2.3 million has been dedicated to the overall performance funding pool of 5 percent. Several scenarios were presented illustrating the effect of a state budget cut at different percentages. As an example, a 5 percent cut would amount to a $2.2 million reduction for the University.
Ms. Dudley also provided an overview of budget functional categories related to revenues and expenditures with Education and General and Auxiliary funds. She explained net assets and the impact of the pension crisis on the University's financial statements. Information was provided regarding unrestricted net position and net assets, specifically detailed information related to revenue contingency. The primary revenues and inflows (excluding appropriations) for the University are tuition and mandatory fees, course and parking fees, auxiliary fees (housing, dining and Bookstore), ticket sales (concerts, athletic events, etc.), service centers, interest income, health insurance employee contributions, grants and contracts and donor funds.

Additional pressure points discussed included reallocation perspectives related to potential tuition increases, utilities budget, employer health insurance, debt service, salaries with fringe benefits and student worker budgets. Fixed costs which are beyond the University's control include utilities, property and liability insurance, bad debt expense, license and maintenance contracts for core software applications, maintenance contracts on infrastructure technology equipment, pension costs and salaries at certain levels.

Information was presented showing tuition rate comparisons (per semester) for the eight state public universities at the in-state, undergraduate rate. Data was also presented showing housing rate comparisons among the universities and the impact of a one, two or three percent increase for Murray State. Similar data was provided to allow for a comparison of dining rates. Finance Committee members and other Board members provided insights into potential tuition increases which may be necessary and how to maintain a balance between affordability and value. For reference, it was stated that a 1 percent increase in tuition amounts to $635,812 in net revenue to the institution.

Additional budget considerations include a cost-of-living adjustment for employees (1 percent amounts to $846,712), funding of compensation study results and maintaining the current level of funding for employee health insurance. Information regarding current actions of academic and administrative program rubrics, the current position pause, expenditure review by executive level to identify discretionary expenditures, revenue enhancement opportunities, outsourcing options and implementation of cost avoidance practices was provided for Fiscal Year 2019.

Finance Committee Chair Kemp indicated that other universities have experienced success in terms of cost savings by outsourcing operations and asked for further clarification regarding this potential. Ms. Dudley indicated there are many University services which can be outsourced.

Currently some University operations are handled in-house but on a smaller scale. Dr. Davies added that the primary reason a university would choose to outsource operations is the corresponding reduction in costs. This would allow the University to focus resources on the academic mission and operations of the institution. This enables the University to employ specific technologies to ensure increased program quality and, in doing so, increase customer satisfaction. As part of this, outsourcing plans have built-in accountability measures to ensure the vendor fulfills its obligations to the institution. Outsourcing – especially with regard to health services – allows for the gain of special expertise. It also provides for better capability to recruit individuals qualified to provide such services with specialized management.

Ms. Dudley reported that schools can outsource dining, housing, health services, parking, bookstore operations and facilities management to auxiliary enterprises that specialize in offering these services. Schools choosing to outsource some operations have experienced financial gain – whether it is an immediate gain or avoidance of future costs. The University is almost certainly facing a pension rate contribution increase and outsourcing is an option which must be considered. Contractors who provide these services have their own benefit packages and such costs would no longer be the University's responsibility. Confirmation was provided that with regard to dining services Murray State is the only public university in the state which is self-operated. Recently, Eastern Kentucky University outsourced Facilities Management operations and Western Kentucky had done so previously. These institutions have experienced savings as a result of outsourcing. New facilities are being constructed from the proceeds so it is not an insignificant amount of savings. Long-term contractors will provide the capital investment necessary to renovate existing or construct new facilities. Confirmation was provided that at other universities pursuing this option the outsourcing firm retained a significant percentage of current employees. These are successful businesses that will have to make those decisions. Having a readily-available pool of staff is a significant consideration for such companies. Confirmation was provided that Murray State has recently experienced significant turnover in the dining services area – such as the Director, Head Chef and another Chef and it has been difficult to identify and hire qualified individuals as replacements in those areas. Temporary consultants have been hired to help bridge this gap but such a measure is expensive and it is short term. Dr. Davies clarified that there remains a great deal of homework to be done before making any such decision regarding whether outsourcing would be an option for Murray State with any operation. It will be important to maintain certain cultural aspects and control mechanisms. Sensitivity to current staff is certainly among those factors to be taken into consideration. It is also possible that staff jobs could be saved by outsourcing, particularly since the University is facing increased pension liability and state budget cuts.

The Finance Committee expressed the need for management to begin work to explore potential outsourcing options and provide information to the Board at a later date. Agreement was reached that consideration must be given to how other universities in the state have successfully negotiated outsourcing options so any decision made can be based on solid analysis. The Board is obligated to consider every potential option that would allow the University to save money.

Confirmation was provided that all units are undertaking an analysis of potential efficiencies and revenue enhancers. Dr. Arant reported that the immediate timeline for the academic review process is that all programs are currently completing the rubric and are undertaking an internal study. This information is due to the Provost by December 15. At that point, Dr. Arant will reconvene the team that built the rubric to begin analyzing the results. It is hoped this work can be completed by mid-January 2018. The results of this work will then be presented to the President. Should the process reveal a program to be cut, the University will be required to inform the Southern Association of Colleges and Schools (SACS) regarding the program closure and must also present a teach-out plan for students currently enrolled in the program. For a bachelor's degree this generally represents a four-year process but in some cases the process does not take four years and students choose to move to another degree program within the University. For a master's degree this represents a two-year process. Work is currently underway to identify concentration or certificate options so programs can be redesigned to avoid the laborious academic approval process required by the Council on Postsecondary Education. This will allow the University to provide options to students more efficiently. Some academic changes will require approval through a more formal process. Adding concentrations and options can typically be done in-house but adding new degree programs will require adherence to the more formal approval process. If proposed changes are identified by SACS as a change of scope, approval from that entity will also be required.

Dr. Davies confirmed that the administrative process is also moving forward and approximately 90 percent of these rubrics have been received. The rubric identifies the reason the units were established; goals and ambitions; external and internal demand to the institution; quality and quantity measurements; size, scope and productivity measures; revenue production and cost factors and the future opportunity and impact for the unit related to the mission of the institution. Confirmation was provided that many are bringing forward an entrepreneurial spirit and a realistic assessment of how costs can be reduced and streamlined to allow the unit to become more efficient. The timeline is essentially the same as that outlined by Provost Arant and discussions will occur with the various constituency bodies. It is anticipated the necessary information will be available by the end of February 2018. At that time, more information will also be known regarding the state situation.

Dr. Davies indicated that the overall goal of this work is to ensure the University has a solid fiscal foundation that is sustainable. A focus will be placed on treating the individuals associated with this institution – the faculty, staff, students and the greater community – equitably and fairly while ensuring that the quality and the reputation of Murray State remains intact as a place of rigor, relevance and excellence. These represent the goals, challenges and opportunities facing the University.

It was indicated that the health service Request for Proposals (RFP) has been redrafted to more appropriately meet the needs of the University as well as to attract additional vendors. It is anticipated the RFP will be sent out in the next few weeks.

Confirmation was provided that, depending on how the state decides to proceed, if a large number of employee retirements occur at once then the 90-day hiring pause would be reconsidered.

Regents were reminded that a Special Meeting has tentatively been scheduled for Friday, May 11, 2018, beginning at 9:30 a.m.

Adjournment

There being no further business to come before the Board of Regents Finance Committee, Ms. Farmer moved that the Special Meeting adjourn. Mr. Schooley seconded and the motion carried. Adjournment was at 3:10 p.m.

Stephen L Williams
Chair

Jill Hunt
Secretary

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