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

<u>Call to Order/Roll Call</u>

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.

<u>Call to Order</u>	**Committee Chair Dan Kemp**
<u>Fiscal Year 2019 Budget Plan</u>*	**Int. President Bob Jackson/ VPFAS Jackie Dudley**
<u>Fiscal Year 2020 Budget Proposal</u>*	**Int. President Bob Jackson/ VPFAS Jackie Dudley**
<u>Transitional Voluntary Retirement Contracts</u>*	**Provost/VPAA Mark Arant**
<u>Policy Changes</u>*	**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***

<u>Fiscal Year 2020 Budget Guidelines</u>*	**Int. President Bob Jackson/ VPFAS Jackie Dudley**
<u>Moody's Presentation to the Council on Postsecondary Education for the Commonwealth of Kentucky (For Information Only)</u>	**VPFAS Jackie Dudley**
<u>Unrestricted Reserves Update (For Information Only)</u>	**Int. President Bob Jackson/ VPFAS Jackie Dudley**
<u>Compensation Study Pause Update (For Information Only)</u>	**Int. President Bob Jackson/ VPFAS Jackie Dudley**

<u>Other Business</u>

<u>Adjournment</u>

(*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

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

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

Confirmation was provided that the $950,000 the Board previously approved for the enhancement of marketing efforts was funded from one in an effort to ease the burden on academics. The transitional voluntary retirement program

1.
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 ptional 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.

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
(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*
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 wil 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

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

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. 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. 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

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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