Finance & Budget Update, presented to the YSU Budget Advisory Council - March 31, 2017
Presented by Neal McNally, Vice President for Finance
YSU 2020 Cornerstones

- Institutional accountability and sustainability
- Student success
- Transition to an urban research university
- Regional engagement
YSU 2020 Cornerstones

- Institutional accountability and sustainability
- Student success
- Transition to an urban research university
- Regional engagement
Overview

I. University Finances
   – Senate Bill 6
   – Reserves

II. Budget update for current fiscal year 2017

III. Budget outlook for FY 2018-19 biennium

IV. Long-term budget planning and forecast
S.B. 6 Background & History

• 1995-1996 Central State University experienced severe financial hardships.
• Gov. George Voinovich removed the CSU board of trustees and appointed a new board.
• Special state management team was created to assist in financial recovery efforts.
• Senate Bill 6 enacted in 1997 to create accountability and to prevent recurrence at Ohio public colleges and universities.
• Ohio Revised Code §3345.72, and Ohio Administrative Code §126:3-1-01.
Senate Bill 6

Legislation highlights:

• Created additional reporting requirements for state colleges and universities:
  – Quarterly financial disclosures.
  – Annual financial statements due October 31.
  – Annual audited statements due December 31.

• *Established penalties for failure to comply.*

• *State intervention for subpar financial performance.*

• Charged Dept. of Higher Education with performing annual financial ratio analysis.
Senate Bill 6

• S.B. 6 ratios:

  – **Net income ratio**: compares expenses and revenues to determine if a campus is operating within its resources.

  – **Viability ratio**: measures a campus’s ability to manage long-term debt obligations.

  – **Primary reserve ratio**: measures a campus’s ability to use reserves in the absence of future revenue.
Senate Bill 6

• Each ratio is assigned a score, ranging from 0 to 5.

• Scores are weighted:
  – Net income score: 20%
  – Viability score: 30%
  – Primary reserve score: 50%

• Weighted scores are summed to yield a single composite score ranging from 0-5.
• 5.0 is highest possible score, indicating a very strong financial position.

• A score of 1.75 or below for two consecutive years would trigger state **fiscal watch**: 
  – State conservatorship / loss of institutional control 
  – Negative publicity and media attention 
  – Bad for student recruitment 
  – Bad for accreditation 
  – Bad for S&P and Moody’s bond ratings
Senate Bill 6

YSU’s Composite Score & History

• Current Score (FY 2016): 3.5
Senate Bill 6

• Composite score comparison (FY 2016):

<table>
<thead>
<tr>
<th>Institution</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio State</td>
<td>4.5</td>
</tr>
<tr>
<td>Miami</td>
<td>4.4</td>
</tr>
<tr>
<td>NEOM ED</td>
<td>3.9</td>
</tr>
<tr>
<td>BGSU</td>
<td>3.9</td>
</tr>
<tr>
<td>Kent State</td>
<td>3.6</td>
</tr>
<tr>
<td>YSU</td>
<td>3.5</td>
</tr>
<tr>
<td>Ohio U.</td>
<td>3.4</td>
</tr>
<tr>
<td>UC</td>
<td>3.2</td>
</tr>
<tr>
<td>SSU</td>
<td>3.2</td>
</tr>
<tr>
<td>Akron</td>
<td>3.2</td>
</tr>
<tr>
<td>Cleve St.</td>
<td>3.1</td>
</tr>
<tr>
<td>UT</td>
<td>3.1</td>
</tr>
<tr>
<td>Cent. St.</td>
<td>2.8</td>
</tr>
<tr>
<td>WSU</td>
<td>2.1</td>
</tr>
</tbody>
</table>
YSU Reserve Funds

• S.B. 6 requires YSU to maintain robust reserves:
  – 50% of S.B. 6 score is based on reserves.

• Reserve balances at June 30, 2016:
  – $34 million (unrestricted).
  – YSU Foundation assets are not counted as YSU funds.

• Reserves generate investment income to support YSU operating budget, ≈ $1 million per year.
  – Spend-down of reserves would reduce revenue.

• Reserves are “one-time” dollars:
  – Accumulated incrementally over time and therefore should not be used to support ongoing base expenses.
  – Part of long-term planning strategy, especially for bldg. maintenance and debt service.

• Reserves mitigate operational risk
  – Serve as buffer when revenues don’t hit targets.
  – Funding source for facility-related emergencies.
II. Budget Update – current year

**FY 2017 general fund revenue:**

<table>
<thead>
<tr>
<th>FY2017 Revenue 2nd Quarter, 12/31/16</th>
<th>Fiscal Year 2017</th>
<th>Actual as a % of Budget</th>
<th>Business Indicator</th>
<th>FY17 actual compared to FY16 actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and mandatory fees</td>
<td>$92,469,697</td>
<td>$83,556,247</td>
<td>90.4%</td>
<td>[green] On/Above target</td>
</tr>
<tr>
<td>Other tuition and fees</td>
<td>$11,092,261</td>
<td>$10,867,774</td>
<td>98.0%</td>
<td>[green] ↑</td>
</tr>
<tr>
<td>Student charges</td>
<td>$1,222,000</td>
<td>$876,034</td>
<td>71.7%</td>
<td>[green] ↔</td>
</tr>
<tr>
<td>State appropriations</td>
<td>$42,755,237</td>
<td>$21,376,272</td>
<td>50.0%</td>
<td>[green] ↑</td>
</tr>
<tr>
<td>Recovery of indirect costs</td>
<td>$1,361,413</td>
<td>$697,774</td>
<td>51.3%</td>
<td>[green] ↓</td>
</tr>
<tr>
<td>Investment income</td>
<td>$1,053,533</td>
<td>$959,010</td>
<td>91.0%</td>
<td>[green] ↓</td>
</tr>
<tr>
<td>Other income</td>
<td>$1,845,900</td>
<td>$867,949</td>
<td>47.0%</td>
<td>[green] ↔</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$151,800,041</strong></td>
<td><strong>78.5%</strong></td>
<td>[green] ↑</td>
</tr>
</tbody>
</table>

- [green] On/Above target
- [yellow] Caution
- [red] Warning
### II. Budget Update – current year

**FY 2017 general fund expenses:**

<table>
<thead>
<tr>
<th>FY2017 Expenses 2nd Quarter, 12/31/16</th>
<th>Fiscal Year 2017</th>
<th>Actual as a % of Budget</th>
<th>Business Indicator</th>
<th>FY17 actual compared to FY16 actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>$74,383,902</td>
<td>$36,122,240</td>
<td>48.6%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Benefits</td>
<td>$23,601,447</td>
<td>$13,691,236</td>
<td>58.0%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Scholarships</td>
<td>$7,450,672</td>
<td>$2,766,981</td>
<td>37.1%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Operations</td>
<td>$19,755,631</td>
<td>$6,603,652</td>
<td>33.4%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Plant &amp; maintenance</td>
<td>$8,293,519</td>
<td>$3,312,363</td>
<td>39.9%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Fixed asset purchases</td>
<td>$363,600</td>
<td>$68,576</td>
<td>18.9%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td>Transfers</td>
<td>$18,056,312</td>
<td>$17,961,663</td>
<td>99.5%</td>
<td>[Green] On/Below target</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$151,905,083</strong></td>
<td><strong>53.0%</strong></td>
<td>[Green] On/Below target</td>
</tr>
</tbody>
</table>

- **On/Below target**: Green
- **Caution**: Yellow
- **Warning**: Red
Operating Performance
YSU General Fund year-end balance/(deficit):
Operating Performance

YSU General Fund year-end balance/(deficit):

FY16 balance is just 0.86% of total expenses
III. Budget Update – FY 2018-19

Future outlook: FY 2018-FY 2019 biennium

Governor Kasich’s budget proposal

• Higher Ed. section of House Bill 49:

1. Prohibits raising tuition and most other fees.
   • Unlike past practice, H.B. 49 caps course fees, college fees, transportation fees, etc. in addition to tuition.
   • Limits our ability to generate new revenues.
     – Difficult to invest in priorities in absence of new revenue.
   • Does not apply to non-resident surcharges, graduate tuition, and room & board.
Future outlook: FY 2018-FY 2019 biennium

Governor Kasich’s budget proposal

• Higher Ed. section of House Bill 49:

  2. State Share of Instruction funding:
      • +1% to statewide appropriation.
      • SSI still allocated by formula, so individual campus funding levels will vary.
      • 1% SSI for YSU = $429,000
III. Budget Update – FY 2018-19

Future outlook: FY 2018-FY 2019 biennium

Governor Kasich’s budget proposal

• Higher Ed. section of House Bill 49:

3. Textbook provision:

• Shifts cost from students to universities.
• Allows universities to assess a $300/year textbook fee.
• Any costs above $300/year would need to be borne by universities.
• Textbook costs can be as high as $600/semester.
• Could increase YSU’s annual operating costs by between $2.5 million to $3 million.
• Effective date: fall 2018.
• Update: Might not survive legislative process in current form.
III. Budget Update – FY18-19

Tressel Administration Budget Priorities, FY 2018:

• Invest in IT infrastructure.

• Invest in personnel: strategically replace and add both faculty and staff.

• Invest in workforce compensation.

• Invest in physical plant to address deferred maintenance on buildings.
Why is deferred maintenance a problem?

- State capital funding to YSU has fallen sharply:

  - FY 1992-93: $13,303,000
  - FY 2017-18: $11,000,000

  17% decline
Why is deferred maintenance a problem?

- State capital funding to YSU has fallen sharply:
### IV. Longer-term planning

**PRELIMINARY DRAFT**

March 21, 2017

<table>
<thead>
<tr>
<th></th>
<th>FY 2018 Enrollment +2%</th>
<th>FY 2019 Enrollment +1%</th>
<th>FY 2020 Enrollment +1%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instructional &amp; Mandatory Fees</td>
<td>$95,169,697</td>
<td>$96,121,394</td>
<td>$97,082,608</td>
</tr>
<tr>
<td>Other Tuition, Fees &amp; Charges</td>
<td>$12,643,261</td>
<td>$12,769,694</td>
<td>$12,897,391</td>
</tr>
<tr>
<td>Total Tuition &amp; Fees</td>
<td>$107,812,958</td>
<td>$108,891,088</td>
<td>$109,979,998</td>
</tr>
<tr>
<td>State Share of Instruction (SSI)</td>
<td>$43,402,821</td>
<td>$43,402,821</td>
<td>$43,402,821</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$4,266,805</td>
<td>$4,266,805</td>
<td>$4,266,805</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td>$155,482,584</td>
<td>$156,560,713</td>
<td>$157,649,624</td>
</tr>
<tr>
<td><strong>EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faculty - full service</td>
<td>$31,084,324</td>
<td>$32,380,690</td>
<td>$32,401,004</td>
</tr>
<tr>
<td>Faculty Resignations</td>
<td>($763,105)</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Approved Faculty Searches</td>
<td>$1,687,785</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Faculty - part-time, summer, ETS</td>
<td>$8,694,274</td>
<td>$8,694,274</td>
<td>$8,694,274</td>
</tr>
<tr>
<td>Staff</td>
<td>$30,982,633</td>
<td>$30,982,633</td>
<td>$30,982,633</td>
</tr>
<tr>
<td>Students</td>
<td>$3,893,609</td>
<td>$3,893,609</td>
<td>$3,893,609</td>
</tr>
<tr>
<td>Fringe Benefits (33% of wages + healthcare inflator)</td>
<td>$25,221,242</td>
<td>$25,332,399</td>
<td>$25,795,535</td>
</tr>
<tr>
<td><strong>Total Personnel</strong></td>
<td>$100,800,762</td>
<td>$101,283,605</td>
<td>$101,767,055</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$28,236,504</td>
<td>$28,236,504</td>
<td>$28,236,504</td>
</tr>
<tr>
<td>Transfers</td>
<td>$25,923,527</td>
<td>$25,923,527</td>
<td>$25,923,527</td>
</tr>
<tr>
<td><strong>Total General Fund Expenses</strong></td>
<td>$154,960,793</td>
<td>$155,443,636</td>
<td>$155,927,086</td>
</tr>
<tr>
<td>Operating margin</td>
<td>0.34%</td>
<td>0.71%</td>
<td>1.09%</td>
</tr>
</tbody>
</table>
IV. Budget forecast for FY 2018-2020

Key Assumptions:

• +2% enrollment growth in FY 2018 (non-CCP).
• +1% enrollment growth in FYs 2019 and 2020 (non-CCP).
  – May be overly aggressive given projected demographic shifts in region.
• Tiered increases in graduate tuition.
• +1% increase in SSI funding in FY 2018.
• Includes savings from faculty resignations in FY 2018 = ($763,000)
• Includes cost of hiring 26 new faculty in FY 2018 = $1.7 million.
  – Administration priority to invest in replacement and addition of personnel.
IV. Budget forecast for FY 2018-2020

Key Assumptions (cont.):

• Excludes impact of governor’s textbook proposal (FY 2019 and FY 2020).

• Healthcare cost inflation:
  – 2.5% in FY18 and FY19; 7% in FY2020.
  – Uncertainty surrounding expected ACA changes.
  – Industry experts predicting higher growth, 7% - 10%

• Excludes Administration’s budget priorities:
  – Investment in IT infrastructure not included.
  – Workforce compensation not included.

• Base changes in expenses will compound in subsequent years.
IV. Budget forecast for FY 2018-2020

Final comments:

• Projections are preliminary and will change.
• Budgets, by nature, are often fluid.
  – Budget plans are updated as new information becomes available.
• Legislative changes to H.B. 49 will affect projections.
  – State of Ohio economic forecast may change.
• Changes in enrollment projections will impact budget projections.
• Year 3 (FY 2020) projections are very uncertain
Questions?