Salem STATE UNIVERSITY

TO: Finance & Facilities Committee of the Board of Trustees
Elliot Katzman, chair
Kathy Murphy, vice chair
Cherie Butts
Rob Lutts
Ruthanne Russell
Paul Wilkens

FROM: Karen P. House, vice president of finance and facilities

SUBJECT: Supplemental Information for November 20, 2019 Meeting

DATE: November 18, 2019

I received a set of questions pertaining to the material circulated for the upcoming committee meeting. I thought it would be helpful to distribute them, along with the answers, as you prepare for the meeting. I look forward to seeing you on Wednesday, November 20, 2019 at 3:30 pm the Sullivan Training Room, Enterprise Center, on Central Campus of Salem State University.

Attachment:

Questions Received, with Management's Responses

cc: Board of Trustees
President John Keenan
Steward, Unit I/AFSCME
Steward, Unit II/AFSCME
Salem Chapter President/APA
Salem Chapter President/MSCA
Lynne Montague, secretary, Board of Trustees

Questions Received, with Management's Responses
for Finance & Facilities Committee Meeting of 11/20/19
Karen House 11/18/19

1. *Page 5/58 What does the bond amount of $106,433,169 represent?*

   This is the amount of the 2008 Bond Bill which was supposed to be available to Salem State University for the library <u>and</u> for science renovations to Meier Hall. What happened is that the new library was built as the first project, using $74 million. The university had intended to use the remaining Commonwealth bond funds (approx. $32M) for the science labs project which was being studied under the auspices of DCAMM. However, the administration changed. The new administration did not choose to exercise the entirety of the previously approved debt capacity. Additionally, the administration believed the process for approval of higher education capital projects was too subjective/political and not strategic across the system. The then-new Secretary of Education commissioned a study for a "Strategic Framework" for capital investments in higher education. Resulting from the new strategic framework process was (1) the capital projects process in which we are submitting Bold, now in its second bi-annual round (2) the readiness study category created after the initial round of major capital project requests (3) the 5-year funding program for critical needs (deferred maintenance) and (4) new recognition of the need for critical infrastructure funding, primarily campus wide utility systems.

2. *Remind me of the difference between on/off ledger*

   Debt issued and held by MSCBA for buildings at SSU that MSCBA owns, primarily residence halls and the parking garage, is not on the books or ledgers of the university <u>as a liability</u>. The related asset is also not on the books of the university. We make payments twice a year to MSCBA which is reflected in the university's financial statements as an operating expense called MSCBA assessment. MSCBA uses those funds to pay the debt service for principal and interest. Because we are contractually responsible to make those annual payments, we have chosen to show the liability which is on MSCBA's books in certain ratios and have characterized it as "off ledger" because it is not on SSU's ledgers. For these buildings, there is a specific revenue source to pay the assessment, typically, residence hall rents. See also note 23 on page 95 of the Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2019.

   "On ledger" debt is debt that is recorded on SSU's books and reflected in the audited financial statements as a liability, along with the related asset. There is not necessarily a specific revenue source for debt service that is attributed to the operation of the buildings. See also note 11 beginning on page 64 of the Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2019.

Attachment C

Key Aspects of "Off-Book Debt" (i.e. MSCBA owned projects)

- The bonds are legally issued by Massachusetts State College Building Authority (MSCBA)
- The project funded by the debt is owned by MSCBA and is an asset on their books
- There is a ground lease between the landowner and MSCBA. For the landowner, the parties are either Commonwealth (through DCAMM and Board of Higher Education) or SSUAC.
- Salem State University is contractually obligated to transfer funds to MSCBA with which the MSCBA will make the debt service payments
- Salem State University collects rents and other fees to generate the cash to transfer to MSCBA
- There is a contract between MSCBA and the Commonwealth via Board of Higher Education which spells out rights and obligations. Under the contract, there is a pledge that the university has 25% of the average annual debt service available as additional security, from non-appropriated funds or other available revenues, including tuition, fees and other charges. The university is required to certify to this pledge twice-annually
- If Salem State University has insufficient funds to transfer to MSCBA, the MSCBA will inform the Comptroller of the Commonwealth who will "intercept" the remaining unspent appropriation for that fiscal year, which would make those appropriation funds unavailable to the university, until the insufficiency is corrected. The university typically applies all operating appropriations to pay salaries because the Commonwealth will then cover the associated fringe benefits costs. *Note: the Comptroller will intercept all appropriations due to all nine campuses, without regard to the source of the insufficiency, if the appropriations of the campus with the insufficiency are insufficient.*
- The full faith and credit of the Commonwealth does not back or guaranty the debt, under a 1998 change to MSCBA's enabling statute

3. *Page 16/58 "Spendable Cash & Investments to Total Debt" chart. A "recommended" range of .50x to .85x is noted. Based on SSU's position, does this mean we are in a better or worse condition?*

   Salem State's Spendable Cash & Investments to Total Debt ratio as shown on page 16 has been calculated inclusive of off-ledger debt. The ratio has been improving since reaching a low in FY2017, but it is not yet at the recommended minimum level. It should be noted that the submitted ratios are for the university alone and do not include figures for the component units of the SSU Foundation or SSU Assistance Corporation. The state universities just recently agreed to report the ratios inclusive of the component units. For FY19, the Spendable Cash & Investments to Total Debt ratio, inclusive of the component units, would be .28x. Although the Foundation had $35.2 million in cash and investments at June 30, 2019, $24.4 million is permanently restricted and is, therefore, not counted in this measurement.

4. *Page 18/58 "Annual Debt Service to FTE Undergraduate Enrollment" seems to be worsening. Does this affect overall enrollment when students' financial wherewithal is factored in?*

   Annual Debt Service to FTE Undergraduate Enrollment is indeed growing. The numerator (annual debt service) has grown due to significant debt issuance for Viking Residence Hall, Gassett Fitness Center, Student Navigation Center, Parking, Land Acquisition, Energy (CEIP), and Sophia Gordon Performing Arts Center. Additionally, the denominator, which is FTE Undergraduate Enrollment, has also been reducing in recent years. We keep an eye on this ratio because we want to be mindful of the impact of our debt service obligations on our students. A more pertinent figure for reviewing the affordability of the university for our students would be their average unmet need after considering financial aid. For enrolled full-time freshmen in 2019, 41% have 100% of their need met, up from 31% in 2017. As was demonstrated in the Sept. 25, 2019 discussion led by Scott James and the consultant from EAB, affordability is one of a number of factors impacting students' persistence and retention, and ultimately the university's enrollment.

5. *Page 20/58 Operating Revenue change looks worsening - how critical is this with regard to Project Bold's financing?*

   The <u>change</u> in operating revenue has been lower over the last several fiscal years, primarily due to enrollment loss. While that is clearly a concern that the university is working to address, we believe that project Bold's completion will be a positive factor in future enrollment, both for science related programs and the university in general, and it will certainly contribute to operating efficiencies and cost savings. We seek to keep the amount of project Bold funded by debt of the university to a minimum, focusing on gaining contributions for Project Bold from the Commonwealth and via gifts and grants.

6. *Page 22/58 Isn't the decrease in net position a problem?*

   Not really. The decrease in net position is primarily attributable to <u>non-cash revenues/expenses</u>, of which there are two major categories: Depreciation and the GASB-required entries for Pension and OPEB liabilities of the Commonwealth. A project such as Bold which off-loads a fully depreciated building (Harrington) and fully renovates a major academic building (Horace Mann) is a responsible action to take to invest in the quality and suitability of the campus for our education mission. The GASB entries are distracting but not consequential unless/until the Commonwealth raises the fringe benefit rate significantly to address their pension & OPEB liabilities. The Commonwealth does not show a major increase in the fringe benefit rate in their five-year forward-looking estimated fringe benefit rates.

   Salem State focuses its management attention on the Managed Revenues and Managed Expenses. Managed Net Income has been positive in the last five years, with significant healthy results in FY18 ($10.0 million or 5.8%) and FY19 ($10.6 million or 6.1%).