Salem | STATE UNIVERSITY

SUBJECT: Finance & Facilities Committee Meeting Report for March 24, 2021

In accordance with the General Laws of the Commonwealth of Massachusetts, Chapter 30A and amended by Executive Order No. _ , issued March 13, 2020, suspending parts of the Open Meeting Law to allow public remote participation and participation by the public body remotely the Finance & Facilities Committee of the Board of Trustees met remotely on Wednesday, March 24, 2021. All votes taken during this meeting were by roll call vote.

Present for the Committee: Trustees Katzman (chair), Russell (vice chair), Murphy, DeSimone, Cadet, and Chair Lutts (ex-officio); President Keenan (ex-officio); Vice President House (committee liaison) and staff associate Beaulieu.

Absent for the Committee: None

Trustee Katzman, committee chair, called the meeting to order at 5:35 pm.

Committee Chair comments and flow of meeting (Attachment A)
Chair Katzman made a few remarks and presented an analogy of what a structural deficit looks like compared to a household budget.

FY21 Q2 financials and financial dashboard (Attachment B, C)
Vice President House briefed the committee on the current financial status of the university. Highlights were included in the slide presentation (Attachment A) and the commentary included with the meeting materials.

FY22 budget planning update (Attachment D)
FY22 budget planning update was discussed, including new information about the federal COVID-19 relief funding. In addition, the projected fringe benefit rates newly received from the Commonwealth were presented along with the financial impact of the increases (Attachment A).

Metrics – EY Parthenon Study (Attachment E)
Background on the study commissioned by the Board of Higher Education was discussed. As more information develops, including potential metrics, it will be shared with the committee.

Sustainability update (Attachment F)
A summary of sustainable projects completed and underway is included in the packet. Earth Days programming, which includes among other events, a panel presentation of the SSU North Campus Clean Energy Roadmap, is open to all interested parties. Trustees are welcome and encouraged to attend. The clean energy panel is scheduled on Thursday April 15 from 4:30 – 5:30 pm. The link to register is
https://salemstate.zoom.us/webinar/register/WN_0a3HZiFQRgiB8jCaRMIVCg

Changes in Finance and Facilities staffing
An announcement was made regarding the departure of Associate Vice President Ben Szalewicz and Director of Budget and Financial Planning Jon Amari in early April. Both have made significant contributions to the university with their skills and leadership. While this is a loss for the university, they both will progress their careers in their new organizations. Chair Katzman and Vice President House thanked them for their service.

There were no questions or comments on other informational items provided in the meeting packet that had been distributed prior to the meeting including:

Capital projects status update (Attachment G)
Committee work plan for the year (Attachment H)

Trustee DeSimone **MOVED** that the Finance and Facilities Committee meeting adjourn **SECONDED** by Trustee Murphy:

A roll call vote was taken.

Voting in the affirmative: Trustees Cadet, DeSimone, Katzman, Murphy, Russell

Voting against: None

The meeting adjourned at 6:24 pm.

Prepared by: D. Beaulieu, staff associate, finance, and facilities

Board of Trustees
Finance and Facilities Committee
March 24, 2021

Karen House
Vice President for Finance and Facilities

Flow of the meeting

- Finance & Investment Matters:
  - FY21 Q2 Financial Results
  - FY22 Budget Planning & Uncertainties – Update
  - Metrics – EY Parthenon Study
- Real estate, facilities, and sustainability

Chair’s remarks

- One-time resources (Federal relief) do not solve recurring structural budget deficits.
- FY21 projected surplus buys time; university must use it well.
- Need to make investments in programs that students want.
- Working together can we do what is best for students

Household Budget Analogy

- Today
  - After-tax income of $50K
  - Expenses $55K
  - One time Stimulus $10K
  - Investments $25K
- Future
  - Employer indicated future income likely $45K in year 1, $43K year 2, etc.
  - Current expenses are expected to increase by $2K / year resulting in deficit in year 1 of $12K, year 2 of $16K. They now have used all their savings
  - Son and daughter are 1 year and 2 years away from college
- What should family do?
  - Use stimulus and savings and not reduce expenses?
  - If so, they wont be able to pay their regular bills.
  - How do they invest in their child's college education ?
- FY21 projected surplus buys time; university must use it well so we can invest in additional faculty in areas that students demand

FY2021 Q2

- Managed net income projection: $15.2 million
- Higher state and federal funding than expected
  - State appropriation, GAA funding 4% up vs. 10% reduction assumed in budget
  - CRRSAA net impact of $7.4 million; questions remain about how and when the funds may be used
- Better enrollment than expected
- Housing and dining counts worse than expected.
- Unfavorable variance in compensation, due to 2-weeks furloughs projected vs. 5 weeks budgeted

FY2021 Q2

		Year End FY 2020	Original Budget FY 2021	Projection FY 2021
Managed Revenues:				
Tuition and fees		$ 84,392	$ 71,973	$ 79,640
Less: scholarships, fellowships & waivers		(28,942)	(24,585)	(28,313)
Net tuition and fees		55,450	47,388	51,327
Federal, state & private grants		24,342	18,996	28,957
Auxiliary enterprises		24,082	16,478	11,650
State general appropriations		66,737	58,576	67,434
Other revenue		6,065	3,308	2,772
Total Managed Revenues	**(A)**	**176,676**	**144,746**	**162,140**
Managed Expenses:				
Compensation		119,890	101,537	106,464
Support		22,868	26,571	27,325
Facility-related		24,376	16,638	13,200
Total Managed Expenses	**(B)**	**167,134**	**144,746**	**146,989**
Managed Net Income	**(A-B)=(C)**	**9,542**	**(0)**	**15,151**

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FY21 Net Income Caveat

The positive managed net income figure for FY21 assumes all of the $7.5 million institutional share of the federal CRRSAA grant funds may properly be used by the university to offset revenue losses and incurred expenses due to the pandemic in a budget-relieving way. The university (and the industry) is awaiting important clarifying guidance from the US Department of Education.

3/10/21

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FY22 Budget Planning

Description ($000's)	FY2022 Forecast 1.13
Results (in $000's)	
Managed Revenue:	
Net Tuition and Fees	47,548
Federal, State, Private Grants	17,496
Auxiliary Enterprises	17,157
State General Appropriations	67,860
Other Revenue	3,772
Total Managed Revenue	153,832
Managed Expenses:	
Compensation	113,675
Support	28,055
Facility Related	20,733
Total Managed Expenses	162,463
Managed Net Income	**(8,630)**
Savings Not Reflected in Above	$4,418
FY21 Rollover Adjustment (FY21 Surplus)	$4,213
Adjusted Bottom Line	**$0**
Unused Rollover	10,938

FY22 Budget Planning

- Actual results from the ERIP program are falling far below the estimate
- Final notice date for all unions is April 1

Description (in $ thousands)	FY22 Forecast
PEC STRATEGIES	
faculty/staff reduction**	$0
adjunct reduction/APR elimination	$500
ERIP***	~~$3,541~~
Facilities strategies	$100
Affiliates (SSUF/SSUAC)	$150
Other	$127
Total Savings	**$4,418**
Footnotes:	
**non-ERIP retirement	
***Assumes net 25 retirements/attrition (ERIP)	

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Known Unknowns for FY22 Budget

- State & Federal funding (covid relief)
  - American Rescue Plan (ARP) funding is looking promising
  - Could be $20 million, of which half must and will go to students
  - Guidance for CRRSAA and ARP issued 3/19: favorable
- Operating model for FY22 (vax rollout)
- Enrollment
- BOLD
- Retirement intentions of faculty & staff

<u>Cushion being Carried Forward</u>

- FY21 Managed Net Income: $15.2M, including furlough savings
- **As shown, without the cushion the structural deficit for FY22 is at least $8.6 million; we anticipate >$12.1 million for FY23**

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American Rescue Plan

- Estimates: $19M to SSU, of which half must go to students
- Similar uses to CRRSAA (still awaiting clarification)

Fringe benefits – looking ahead

	rec'd 2/25/2020	rec'd 3/15/2021	
	Total Rate	Total Rate	Diff
Year			
FY22 Proposed	37.27%	37.53%	0.26%
FY23	38.66%	40.80%	2.14%
FY24	40.12%	42.45%	2.33%
FY25	41.66%	44.19%	2.53%
FY26	43.28%	46.02%	2.74%
FY27	n/a	47.96%	

Annual cost increase to the university from when fringe rate was 31% to FY27 projected rate of 47.96% **is $4.3 million.**

Metrics – EY Parthenon(EYP) Analysis

- BHE commissioned a study last spring
- Focused on FY21 (pandemic)
  - Are institutions at risk of running out of cash due to pandemic?
    - No
    - Variability in liquidity amongst institutions
  - BHE should be more proactive in monitoring
    - What metrics would assist?
- Slides to follow were created by EYP

Metrics EYP proposed for consideration

- Liquidity (avg months cash)
- Operating margin %
- Net Cash Flow
- Debt service coverage (x)
- Operating metrics:
  - Change in enrollment
  - State & student revenue per credit or FTE
  - Cash outflows per credit or FTE

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FY21 Overview for State Universities DRAFT

State University
SAL

MASSACHUSETTS Department of Higher Education

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Cash Metrics

Avg. Months - Available Liquidity**	Total Net Cash Flow (in $M)
4.5	$1.8

Avg. Available Liquidity ***
5.9

Other Financial Metrics

Operating Margin %	Total Revenue (in $M)	Debt Service Coverage
0.5%	$162.1	1.5

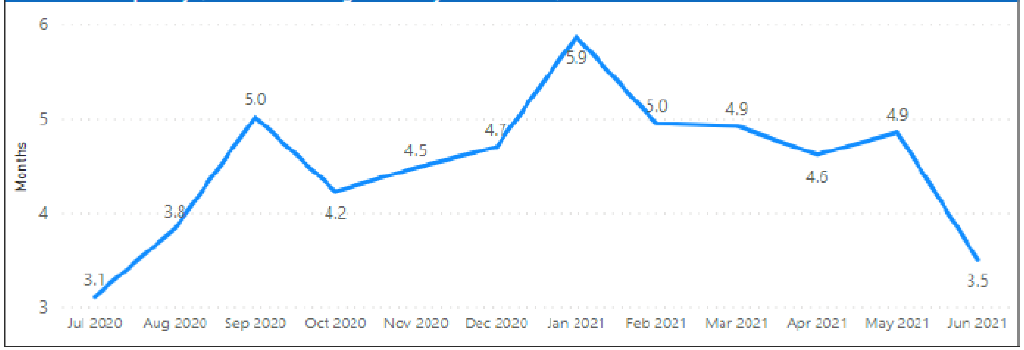
Avg. Operating Margin % ***	Avg. Debt Service Coverage ***
-0.3%	1.2

Operating Metrics

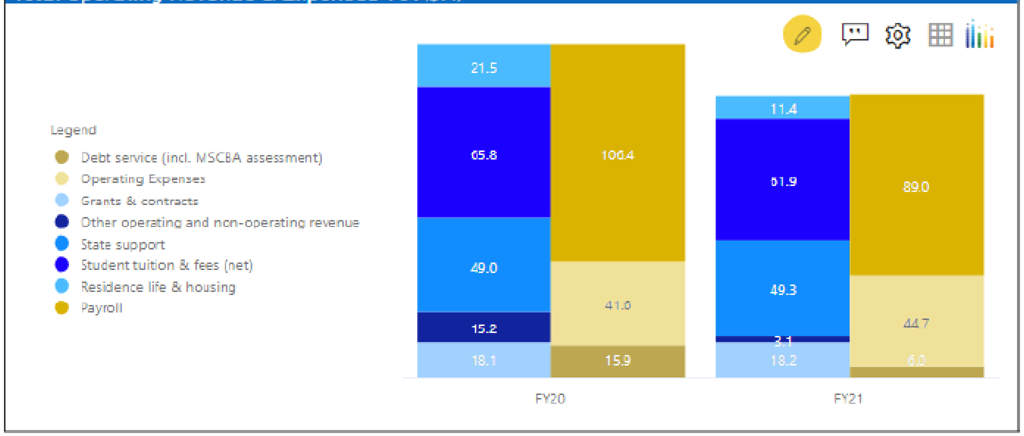
Change in Enrollment (Year over year)	State and Student Revenue per FTE ('000)	Cash Outflows per FTE ('000)
-7.2%	$21.1	$25.4

Avg. Year over year Change in Enrollment ***	Avg. State and Student Revenue per FTE ('000) ***	Avg. Cash Outflows per FTE ('000) ***
-8.3%	$20.0	$25.7

Available Liquidity (in terms of avg. monthly cash flows)



Total Operating Revenue & Expenses YOY($M)*



* Revenue and Expenses amount do not include non-cash items, capital appropriations and capital purchases
** In terms of average monthly cash flows
*** Averages based on straight-line (non-weighted) basis

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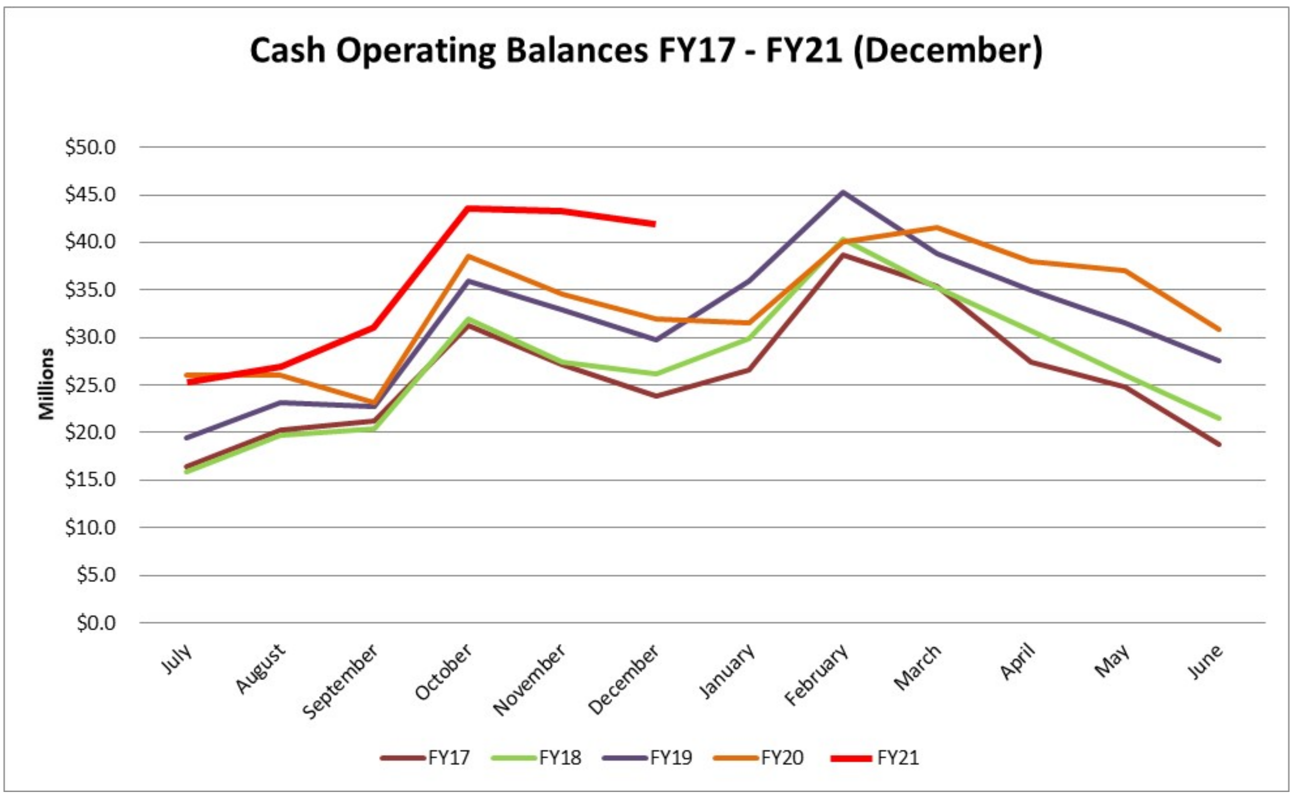
Capital Projects and Sustainability Matters

Salem State University
Interim Financial Review through the Second Quarter (Q2) of FY21 (12/31/2020)
Commentary

Introduction – The attached package includes a summarized Management Revenue & Expense Report that distinguishes between managed and non-cash revenue and expense activity, in addition to the traditional GAAP-style financial statements. Thus, the package for the period ending December 31, 2020 includes the following unaudited financial statements:

- Management Revenue & Expense Report
- Management Revenue & Expense Report by Trust Funds
- Statements of Net Position
- Statement of Cash Flows
- Statements of Revenues, Expenses and Changes in Net Position by Natural Classification

KEY ITEMS SUMMARY:



Note: Operating Cash includes Deposits Held by State Treasurer

Summary Financial Information for FY20Q2 and FY21Q2

	(In Thousands)				Budget	Projection
	FY20Q2	FY21Q2	$ Change	% Change	FY21	FY21
Managed Revenues	$ 130,854	$ 113,510	$ (17,344)	-13.3%	$ 144,746	$ 162,140
Managed Expenses	80,225	62,355	(17,870)	-22.3%	144,746	146,989
Managed Net Income	**50,629**	**51,155**	**526**	**1.0%**	**(0)**	**15,151**
Non Cash Revenue/(Expenses)	(2,584)	(1,783)	**801**	-31.0%	(4,220)	(4,220)
Total Increase/(Decrease) in Net Position	**$ 48,045**	**$ 49,372**	**1,327**	**2.8%**	**$ (4,220)**	**10,931**

Balance Sheet – Excluding cash with state and other agencies, cash increased $11.8 million since June 30, 2020 due to timing of payments and the foregone payment to MSCBA for the fall FY21 assessment. At December 31, 2020, the accounts receivable balance stood at $40.0 million, an increase of $31.9 million since June 30, 2020 due to the billing of the Fall semester. The December 31 accounts receivable balance is lower than the second quarter of the previous year by $6.6 million or 14.2% primarily due to lower enrollment due to the COVID-19 pandemic. Capital assets have decreased $4.3 million primarily due to depreciation taken through the second quarter, offset slightly by asset additions. Investments have increased 15.5% or $2.7 million to $20.2 million since June 30, 2020 due to market conditions. Bonds payable decreased by $5.8 million primarily due to bonds being refinanced by the MSCBA during July 2020.

Cash Operating Balances FY17 through FY21 (December) — The cash graph displays operating cash balances by month and excludes deposits held by MSCBA/DCAMM. Operating cash flows are cyclical as depicted in the cash graph. However, cash flows are altered in FY21 due to the COVID-19 situation in which the MSCBA restructured debt and eliminated an assessment expense typically paid in September. Thus, operating cash is higher than the previous four years primarily due to the university not being required to pay a fall assessment to MSCBA during FY21. As discussed in the January Finance and Facilities Committee meeting, the university has recently moved some working capital cash to Eastern to be invested.

Managed Revenues and Expenses - For the six months ending December 31, 2020 (FY21), Salem State's net position increased by $49.4 million overall which is higher than the prior year of $48.0 million. For managed net income, the YTD result through the second quarter of FY21 is $51.2 million, an increase of $0.5 million or 1.0% over the same period in FY20. Net tuition and fees decreased $5.3 million, or 8.4% over the same period in FY20 primarily due to enrollment decreases. Auxiliary enterprise revenue was $14.4 million or 54.8% lower over the prior year. This reduction is due to lower housing, meal plans and parking resulting primarily from the impact of COVID-19 (single room occupancy only as part of COVID-19 protocols) as well as lower enrollment. Managed expenses of $62.4 million decreased $17.9 million or 22.3% compared to the same period in the prior year. Compensation decreased $9.3 million or 16.0% primarily due a smaller number of positions in FY21 due to the VSIP in FY20 as well as furloughs taken during the first six months of FY21. The university has continued to tightly control compensation expenses through limited hiring, a furlough program and freezes on annual pay increases to existing employees due to the COVID-19 pandemic. Facility-related expenses are down $7.5 million or 66.1% as a result of not having to pay the MSCBA assessment during the fall of FY21 due to the debt refinancing by the MSCBA.

Changes in Non-Cash Revenues and Expenses – The total net non-cash revenues and expenses through the first quarter increased $0.8 million or 31% primarily due to investment revenue activity.

Comparison of Current FY21 Projection to Approved FY21 Budget

<u>Managed Revenue and Expense Activity:</u>

- Managed net income is projected to be $15.2 million favorable to budget. The main reasons for this, which are detailed below, relate to higher state and federal funding than expected. (Favorable tuition/fee revenue is more than offset by unfavorable auxiliary revenue.)

- A favorable variance of $3.9 million in net tuition and fees is projected which is related to Undergraduate ($4.9 million), Graduate Studies ($2.2 million), and Continuing Education ($0.6 million) enrollment exceeding budget targets. Unrestricted student aid is unfavorable to budget by $0.5 million driven by higher enrollment than budgeted. As is required under the CRRSAA federal funding award described in the following bullet point, the university will award $3.3 million in additional aid to students this spring.
- A favorable variance of $10.0 million in Grant revenue is driven by $10.7 million in federal funding (CRRSAA) for COVID response and relief, which the University was awarded in January 2021. Of this $10.7 million, as described above, at least $3.3 million is required to go directly to students. It should be noted that there are some outstanding questions about how and when the CRRSAA funds may be used. For purposes of this projection they are shown as an FY21 item, but it is possible some of the funding may flow to FY22 once the university receives clarification.
- An unfavorable variance of $4.8 million in Auxiliary revenue is due to fall and spring semester housing and dining occupancy being lower than budgeted due to the COVID pandemic.
- A favorable projected variance of $8.9 million in state support is caused by the significantly higher Massachusetts state appropriations approved and signed into law in December 2020. The university budgeted the General Appropriations Act (GAA) component of the appropriation to be down 10%, but the final MA state budget had an increase in GAA of 4%. Certain state support from FY20 was rolled into the base GAA for FY21; thus, overall state appropriations for SSU are projected to be $697 thousand or 1% higher for SSU than in FY20.
- Other revenue is expected to be $0.5 million lower than budgeted due to lower sales & services revenue.
- Turning to expenses, an unfavorable variance of $4.9 million in compensation is attributable to the decision to decrease the number of furlough weeks from 5 to 2 weeks for all unions coupled with $0.9 million in estimated payouts related to the early retirement incentive program ("ERIP"). The unfavorable compensation variance is partially offset by a favorable variance of $1.2 million in student labor due to remote operations.
- Support expenses are $0.8 million unfavorable to budget. This is due to an incremental $1.0 million in expected COVID mitigation costs, $1.4 million in incremental dining costs, offset by $1.6 million in anticipated savings from remote operations.
- Facility-related expenses are expected to be $3.4 million favorable to budget. This is driven by $2.2 million in savings from MSCBA Assessment and Interest Expense based on the actual assessment invoice received from MSCBA for FY21 in January, $0.7 million in utility savings from remote operations, and $0.5 million in savings for the Weir property leases that were paid off early in FY20.

<u>Non-Cash Revenue and Expenses:</u>

- As is the university's practice, the budget does not include a calculation of the impact of GASB 68 pension and GASB 75 OPEB liability adjustment for FY20. Information to book these adjustments is maintained by and received from the Commonwealth as the books are closed for the fiscal year. As the University has not received any estimate for these amounts from the Commonwealth, the projection does not include any estimate for GASB 68 or GASB 75.

The Management Revenue & Expense Report displays the year to date activity through the applicable quarter of the prior year compared to the current year. The Statement of Net Position and related analysis compares the prior year's fiscal year-end balance to the balance at the end of the applicable quarter in the current year. This is done in order to focus on what changed in the current fiscal year. Similarly, the Statement of Cash Flows is presented through the end of the applicable quarter in the current year and shows the change in cash from the end of the prior fiscal year.

Financial reports and information herein are hereby certified by the President or designee, VP for Finance and Facilities Karen House, that all records were maintained in accordance with proper procedures, including documentation of receipts, disbursements and bank accounts, and that all expenditures were made to advance Salem State University's mission. The information is for the University without the inclusion of the Assistance Corporation and Foundation and is derived from the financial system of record (PeopleSoft) as the numbers stood when the period being reported was closed.

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Attachment B

Management Revenue & Expense Report

(In Thousands)

		2nd Qtr FY 2020	2nd Qtr FY 2021	Change from FY 2020 2nd Qtr	Change %	Year End FY 2020	Original Budget FY 2021	Projection FY 2021
Managed Revenues:								
Tuition and fees		$ 77,468	$ 71,721	$ (5,747)	-7.4%	$ 84,392	$ 71,973	$ 79,640
Less: scholarships, fellowships & waivers		(14,144)	(13,740)	404	-2.9%	(28,942)	(24,585)	(28,313)
Net tuition and fees		63,324	57,981	(5,343)	-8.4%	55,450	47,388	51,327
Federal, state & private grants		9,701	10,140	439	4.5%	24,342	18,996	28,957
Auxiliary enterprises		26,322	11,899	(14,423)	-54.8%	24,082	16,478	11,650
State general appropriations		29,077	31,405	2,328	8.0%	66,737	58,576	67,434
Other revenue		2,430	2,085	(345)	-14.2%	6,065	3,308	2,772
Total Managed Revenues	**(A)**	**130,854**	**113,510**	**(17,344)**	**-13.3%**	**176,676**	**144,746**	**162,140**
Managed Expenses:								
Compensation		58,235	48,943	(9,292)	-16.0%	119,890	101,537	106,464
Support		10,619	9,554	(1,065)	-10.0%	22,868	26,571	27,325
Facility-related		11,371	3,858	(7,513)	-66.1%	24,376	16,638	13,200
Total Managed Expenses	**(B)**	**80,225**	**62,355**	**(17,870)**	**-22.3%**	**167,134**	**144,746**	**146,989**
Managed Net Income	**(A-B)=(C)**	**50,629**	**51,155**	**526**	**1.0%**	**9,542**	**(0)**	**15,151**
Non-Cash Revenue/(Expenses):								
Capital grants		1,125	-	(1,125)	100.0%	1,560	5,323	5,323
Depreciation		(4,660)	(4,679)	(19)	0.4%	(9,276)	(9,408)	(9,408)
Unrealized gains/(losses)		951	2,896	1,945	204.5%	345	(135)	(135)
GASB 68 Pension		-	-	-	-	(3,123)	-	-
GASB 75 OPEB		-	-	-	-	(1,092)	-	-
Use of Net Position		-	-	-	-	-	-	-
Total Non-Cash Revenue/(Expenses)		**(2,584)**	**(1,783)**	**801**	**-31.0%**	**(11,586)**	**(4,220)**	**(4,220)**
Total Increase/(Decrease) in Net Position		**$ 48,045**	**$ 49,372**	**$ 1,327**	**2.8%**	**$ (2,044)**	**$ (4,220)**	**$ 10,931**

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Management Revenue & Expense Report by Trust Funds
December 31, 2020

Account Description	FY 2020 Year-End ($K)	Unrestricted Auxiliaries	Educational & General Funds	Grants	Gifts & Contributions	Residence Halls	Restricted Other	Total Restricted Endowments	Net Invested in Capital Assets	FY 2021 YTD-December Actuals ($K)
Managed Revenues:										
Net tuition and fees	$55,450	($3)	$67,175	($8,188)	($392)	($1,065)	$454			$57,981
Federal, state & private Grants	24,342		1	10,101		38				10,140
Auxiliary enterprises	24,082	2,764	75			8,939	121			11,899
State general appropriations	66,737		31,346	59						31,405
Other revenue	6,065	78	464	19	1,499		8	$17		2,085
Total Managed Revenues	**176,676**	**2,839**	**99,061**	**1,991**	**1,107**	**7,912**	**583**	**17**	**-**	**113,510**
Managed Expenses:										
Compensation	119,890	77	46,069	1,162	105	1,530				48,943
Support	22,868	1,593	6,798	853	123	141	46			9,554
Facility-related	24,376	(469)	3,543	28	8	970	78		($300)	3,858
Total Managed Expenses	**167,134**	**1,201**	**56,410**	**2,043**	**236**	**2,641**	**124**	**-**	**(300)**	**62,355**
Managed Net Income	**9,542**	**1,638**	**42,651**	**(52)**	**871**	**5,271**	**459**	**17**	**300**	**51,155**
Non-Cash Revenues/(Expenses):										
Capital grants	1,560									-
Depreciation	(9,276)								(4,679)	(4,679)
Unrealized gains/(losses)	345		2,736				26	134		2,896
GASB 68 Pension	(3,123)									-
GASB 75 OPEB	(1,092)									-
Total Non-Cash Revenue/(Expenses)	**(11,586)**	**-**	**2,736**	**-**	**-**	**-**	**26**	**134**	**(4,679)**	**(1,783)**
Total Increase/(Decrease) in Net Position	**($2,044)**	**$1,638**	**$45,387**	**($52)**	**$871**	**$5,271**	**$485**	**$151**	**($4,379)**	**$49,372**

Statements of Net Position

(In Thousands)

	FY 2020 Year End	FY 2021 YTD December 31	Change $	Change %
Assets:				
Cash	$ 27,425	39,201	$ 11,776	42.9%
Cash with State and other agencies	4,296	3,894	(402)	-9.4%
Accounts and other receivables	8,080	39,999	31,919	395.0%
Capital assets	159,761	155,464	(4,297)	-2.7%
Investments	17,447	20,156	2,709	15.5%
Loans receivable, net	1,589	1,373	(216)	-13.6%
Debt Service Reserve	1,473	1,473	-	-
Other Assets	117	90	(27)	-23.1%
Total Assets	220,188	261,650	41,462	18.8%
Deferred Outflows of Resources	22,043	21,979	(64)	-0.3%
Total Assets and Deferred Outflows of Resources	$ 242,231	$ 283,629	$ 41,398	17.1%
Liabilities:				
Accounts payable and accrued expenses	$ 6,342	$ 3,413	$ (2,929)	-46.2%
Accrued Payroll	7,411	4,783	(2,628)	-35.5%
Bonds and notes payable	39,161	33,380	(5,781)	-14.8%
Compensated absences	9,172	9,172	-	-
Loan payable, federal financial assistance programs	2,061	2,061	-	-
Other liabilities	4,525	2,145	(2,380)	-52.6%
Net Pension Liability	40,624	40,624	-	-
Net OPEB Liability	76,583	76,583	-	-
Total Liabilities	185,879	172,161	(13,718)	-7.4%
Deferred Inflows	39,416	45,160	5,744	14.6%
Total Liabilities and Deferred Inflows of Resources	225,295	217,321	(7,974)	-3.5%
Net Position:				
Invested in capital assets	125,110	120,731	(4,379)	-3.5%
Restricted	7,759	14,482	6,723	86.6%
Unrestricted	(115,933)	(68,905)	47,028	-40.6%
Total Net Position	16,936	66,308	49,372	291.5%
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 242,231	$ 283,629	$ 41,398	17.1%

Salem | STATE UNIVERSITY

Statement of Cash Flows
(In Thousands)

	YTD 12/31/20 FY 2021
Cash flow from operating activities:	
Tuition and fees (net)	$ 31,340
Grants and contracts	9,912
Payments to vendors, employees and students	(60,001)
Auxiliary and other receipts	5,137
Net cash used by operating activities	(13,612)
Cash flow from non-operating activities:	
State appropriations (net)	22,934
Gifts, investment and other sources	2,090
CARES funds	603
Net cash provided by non-operating activities	25,627
Cash flow from capital, financing and investing activities:	
Purchases of capital assets	(1,068)
Debt service payments on note payables	(117)
Investment activities (net)	544
Net cash used in capital financing, and investing activities	(641)
Net increase in cash and cash equivalents	**11,374**
Cash and cash equivalents at beginning of period	**31,721**
Cash and cash equivalents at end of period	**$ 43,095**

Salem | STATE UNIVERSITY

Statements of Revenues, Expenses and Changes in Net Position by Natural Classification

(In Thousands)

	Year to Date through December 31		Full Fiscal Year		
	FY 2020 Actual	**FY2021 Actual**	**FY 2020 Actual**	**FY2021 Budget**	**FY2021 Projection**
Operating Revenues:					
Tuition and fees	$ 77,468	$ 71,721	$ 84,392	$ 71,973	$ 79,640
Less: scholarships and fellowships	(9,841)	(8,866)	(18,637)	(16,112)	(18,868)
Net tuition and fees	67,627	62,855	65,755	55,861	60,772
Federal, state and private grants	9,701	9,074	18,107	18,996	28,957
Sales and services of educational departments	396	173	660	755	220
Auxiliary enterprises	26,322	11,899	24,084	16,478	11,650
Other operating revenues	55	44	500	275	277
Total Operating Revenues	104,101	84,045	109,106	92,365	101,876
Operating Expenses:					
Compensation and benefits	58,235	48,943	124,106	101,537	106,464
Supplies and services	19,839	12,243	42,068	37,022	36,116
Utilities	1,362	1,077	3,780	4,475	3,800
Depreciation	4,660	4,679	9,276	9,408	9,408
Scholarships and fellowships	4,305	4,875	10,305	8,473	9,445
Total Operating Expenses	88,401	71,817	189,535	160,915	165,233
Non-Operating Revenues/Expenses:					
State appropriations, net	29,077	31,405	66,737	58,576	67,434
CARES Grant	-	1,066	6,235	-	-
Gifts	1,455	1,499	2,341	1,917	1,917
Contribution from SSUAC	-	-	473	-	-
Investment income (loss)	1,476	3,266	1,787	225	223
Other revenue - MSCBA	-	-	647	-	-
Interest expense on bonds & other debt	(788)	(92)	(1,395)	(1,711)	(609)
Net Non-Operating Revenues/Expenses	31,220	37,144	76,825	59,007	68,965
Capital grants	1,125	-	1,560	5,323	5,323
Use of Net Position	-	-	-	-	-
Total Increase (Decrease) in Net Position	$ 48,045	$ 49,372	$ (2,044)	$ (4,220)	$ 10,931

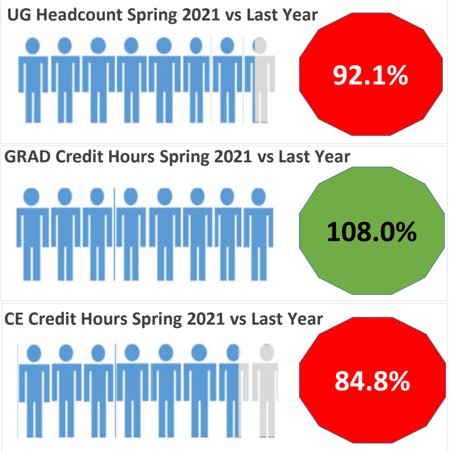
Salem State University Financial Dashboard

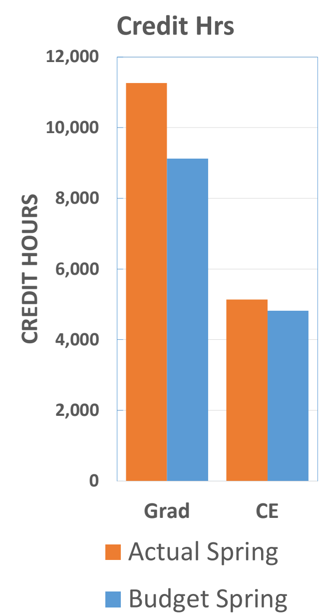
Data as of 1/31/2021

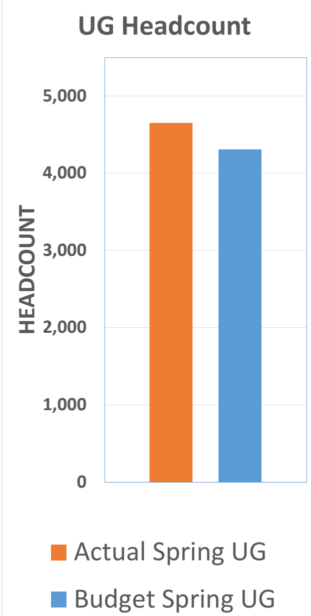
Attachment C

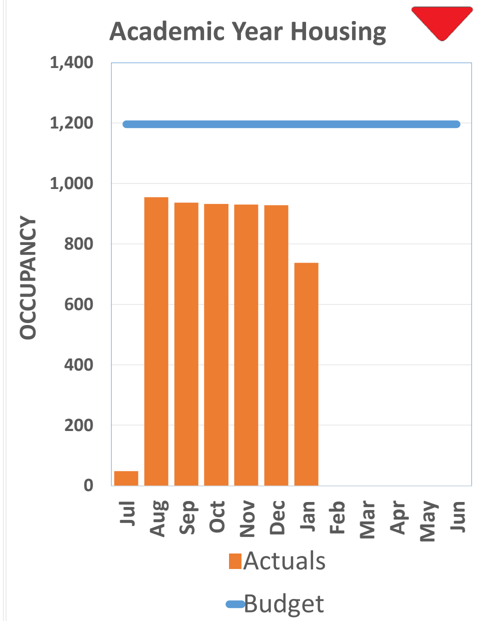
*Position Vacancy Savings

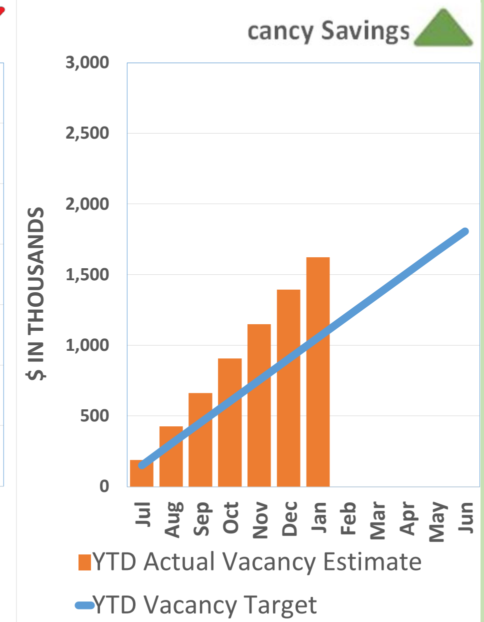
Statistics











Key Managed Revenues as of 1/31/2021 (current fiscal year) and January month end, closed (prior fiscal year)

Net Tuition & Fees

Full Year 2021 Budget: $47.4M
32.7% of Total Managed Revenue Budget

	Prior FY	Current FY
% Attainment	118.4%	**129.6%** ▲
$ Actual	$65,648K	**$61,424K** ▼

State General Appropriations

Full Year 2021 Budget: $58.6M
40.5% of Total Managed Revenue Budget

	Prior FY	Current FY
% Attainment	50.8%	**66.4%** ▲
$ Actual	$33,924K	**$38,902K** ▲

Auxiliaries

Full Year 2021 Budget: $16.5M
11.4% of Total Managed Revenue Budget

	Prior FY	Current FY
% Attainment	110.9%	**71.4%** ▼
$ Actual	$26,707K	**$11,761K** ▼

Managed Expenses as of 12/31/2020 (current fiscal year) and January month end, closed (prior fiscal year)

Compensation

Full Year 2021 Budget: $101.5M
70.1% of Total Managed Expenses Budget

	Prior FY*	Current FY
% Attainment	56.7%	**59.4%** ▼
$ Actual	$67,967K	**$60,279K** ▲

Support

Full Year 2021 Budget: $26.6M
18.4% of Total Managed Expenses Budget

	Prior FY	Current FY
% Attainment	58.1%	**44.7%** ▲
$ Actual	$13,277K	**$11,866K** ▲

Facility Related

Full Year 2021 Budget: $16.6M
11.5% of Total Managed Expenses Budget

	Prior FY	Current FY
% Attainment	51.9%	**29.0%** ▲
$ Actual	$12,656K	**$4,830K** ▲

***Comparison distorted due to VSIP**

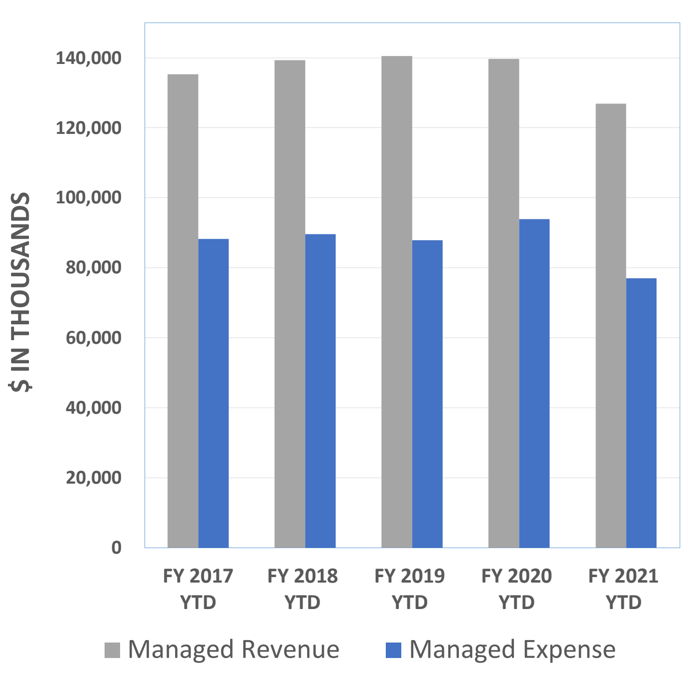
Salem State University Financial Dashboard

Attachment C

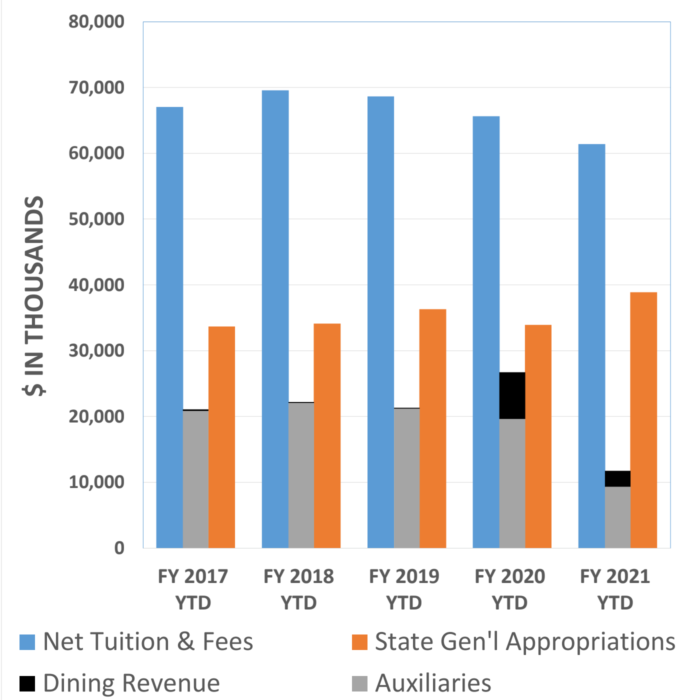
Data as of 1/31/2021

Managed Net Income Trends as of 1/31/2021 (current fiscal year) and January Month end, closed (prior fiscal years)

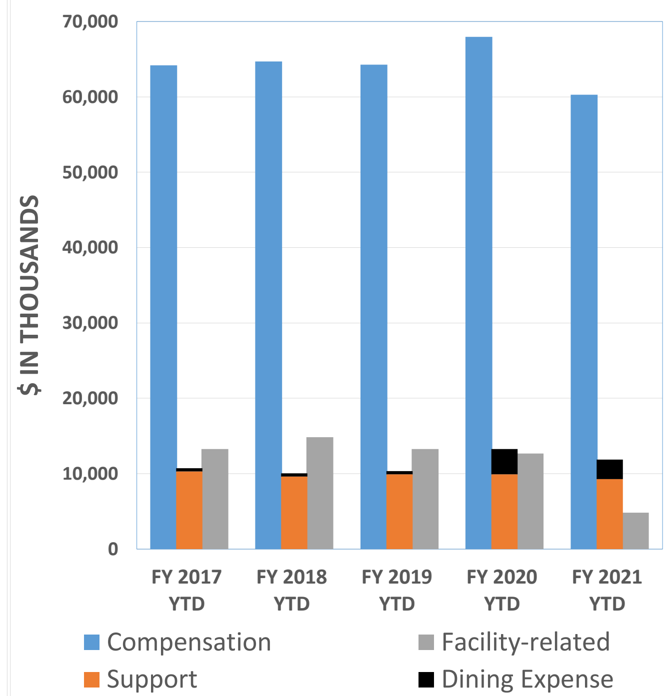
Five-Year Managed Revenue & Expense Trend



Trends - Key Managed Revenues

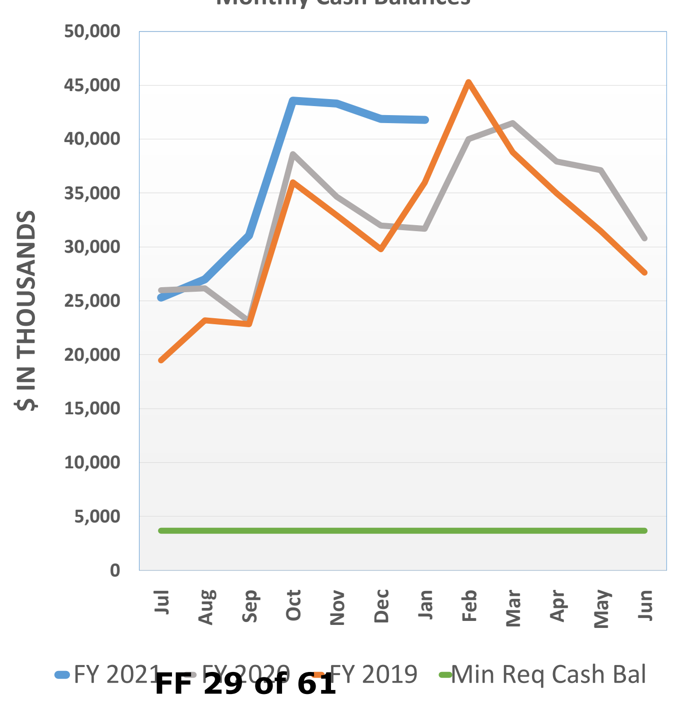


Trends - Key Managed Expenses

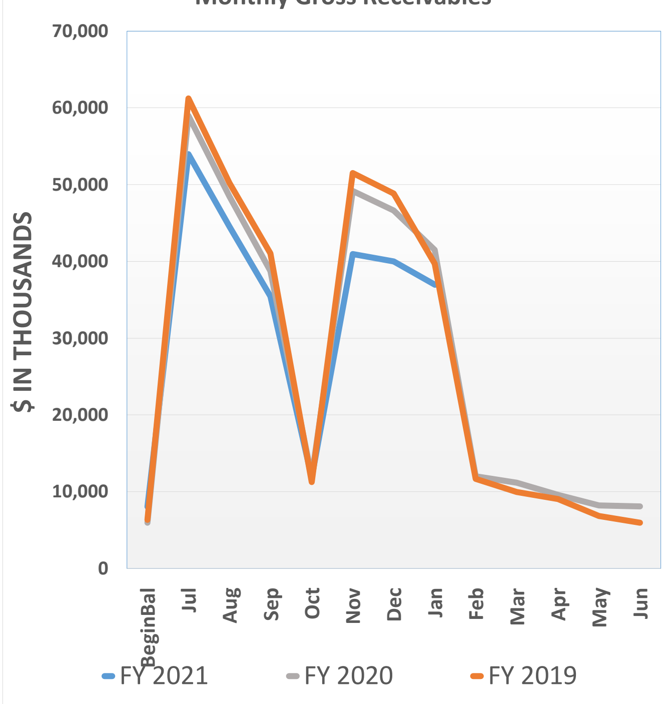


Balance Sheet Trends

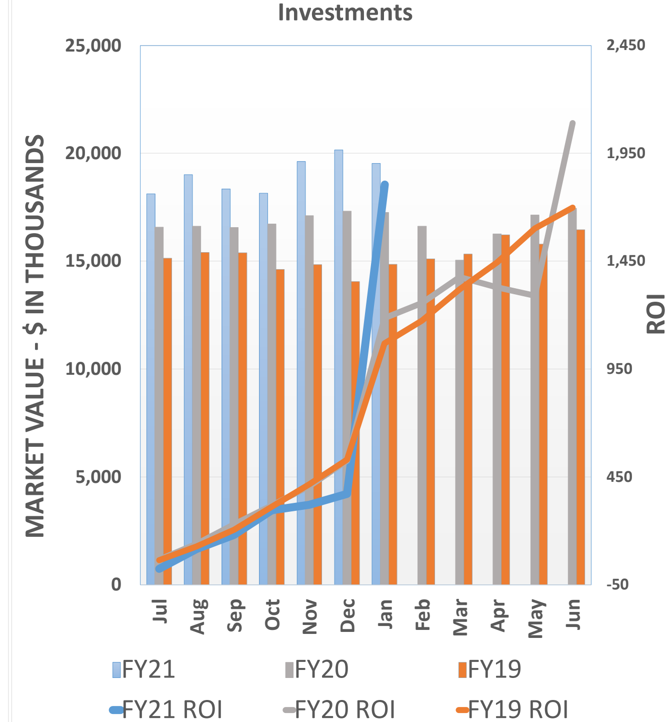
Monthly Cash Balances



Monthly Gross Receivables

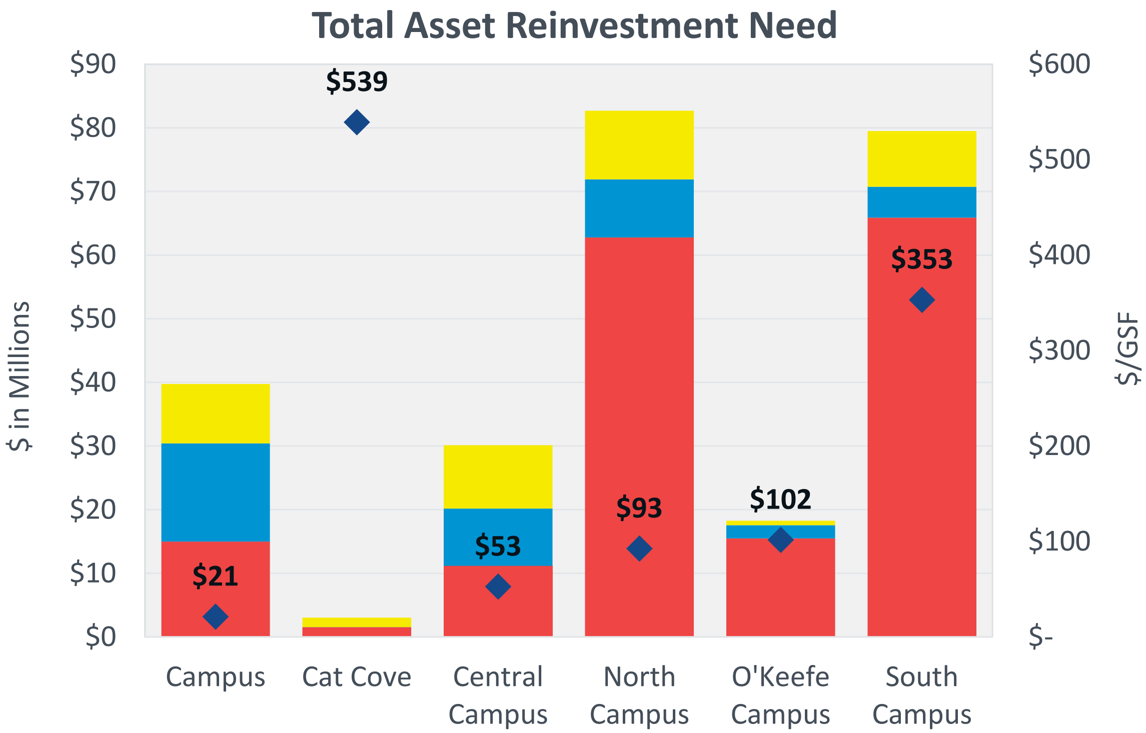


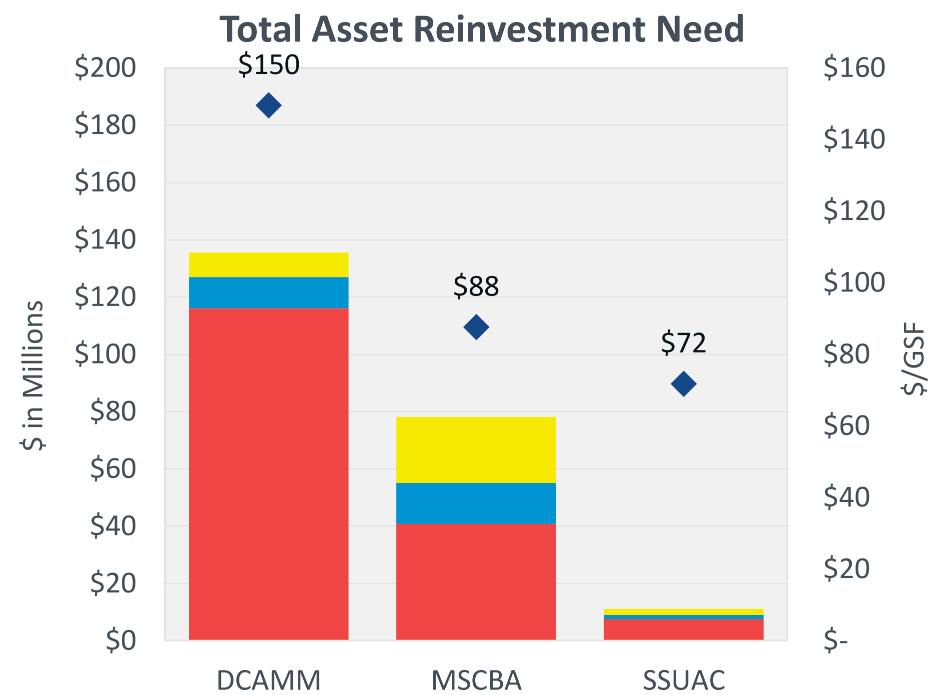
Investments



Asset Reinvestment Need by Campus

Breaking out campus AR Need by timeframe





A Timeframe (1-3 Years) B Timeframe (4-7 years) C Timeframe (8-10 Years) $/GSF

Salem State University, Finance and Facilities Committee
FY 2022 – FY 2023 University Financial Outlook
January 22, 2021
Note: This was presented at the January 27 committee meeting and is largely still accurate, so it is being presented again for the March 24 committee meeting.

	Original Budget FY 2021	Projection FY 2021	Projection FY 2022	Projection FY 2023
Managed Revenues:				
Tuition and fees	$ 71,973	$ 78,360	$ 73,930	$ 72,425
Less: scholarships, fellowships & waivers	(24,585)	(28,313)	(26,016)	(26,254)
Net tuition and fees	47,388	50,047	47,914	46,171
Federal, state & private grants	18,996	28,957	17,496	17,496
Auxiliary enterprises	16,478	11,858	16,923	17,508
State general appropriations	58,576	67,434	67,860	68,504
Other revenue	3,308	2,772	2,772	2,772
Total Managed Revenues	**144,746**	**161,068**	**152,965**	**152,451**
Managed Expenses:				
Compensation	101,537	105,664	112,697	114,441
Support	26,571	27,370	27,775	26,637
Facility-related	16,638	13,200	20,733	23,486
Total Managed Expenses	**144,746**	**146,234**	**161,205**	**164,564**
Managed Net Income	**-**	**14,834**	**(8,240)**	**(12,113)**

Key points:

(1) Neither FY22 nor FY23 include the financial impact of the plan for a sustainable future that is currently under development by leadership.

(2) FY21 assumes no further major disruption of on-campus operations due to COVID-19.

(3) The projections assume the Federal CRRSAA funds are received in FY21 including $3.256 million received and disbursed to students as required and $7.454 million received by the university as compensation for lost revenue expenses and other expenses of the covid pandemic. As the university receives clarification, some of these funds may be recorded in FY22 instead.

(4) FY22 assumes flat tuition, fees, room, and board for undergraduate students.

(5) Managed net income results should be considered in a multi-year frame and so, significant positive managed net income in FY21 could offset the

projected negative in FY22 while the university works to identify and implement strategies to solve its structural budget challenges.

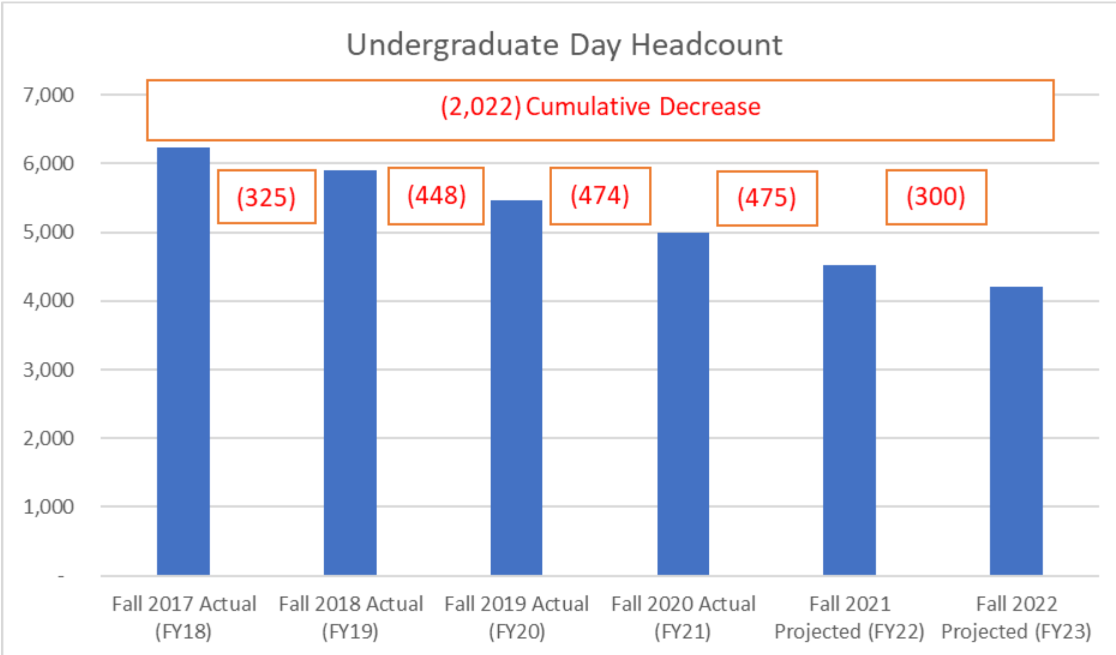
(6) The current projections do not yet show a Best and Worst case scenario.

Overview:

The FY22 and FY23 projections have been developed within the challenging context of a continuing global pandemic that disproportionately impacts many in our demographic and geographic service profile, as well as a trend of declining enrollment that pre-dates the pandemic. Major assumptions underlying the current projections for FY22 and FY23 are below. Such assumptions and projections have not been updated to reflect the sustainable plan that leadership is developing which incorporates appropriate suggestions from the Sustainable Path Forward Task Force report.

Revenue Drivers:

- FY21 assumes the Federal CRRSAA funds are received in FY21 and benefits FY21 by $7.454 million, not in FY22 and FY23. It is possible this timing could shift and also that additional federal or state relief could materialize in the future.
- For FY22 and FY23 the university's planning assumption is that the General Appropriation Act (GAA) appropriation will be flat with the FY21 final Massachusetts state budget that Governor Baker signed into law on December 11, 2020. This is consistent with the FY22 Massachusetts Board of Higher Education ("BHE") budget recommendation that was approved December 15, 2020. The university will know more about FY22 state appropriations when Governor Baker releases his budget on January 27 and the House and Senate release their versions later this spring.
- Undergraduate day enrollment for FY22 is modeled to decrease by 475 students compared to the FY21, and FY23 is modeled to decrease by an additional 300 students. This is a continuation of a multi-year trend as depicted in the chart below. Continuing Education credit hours are projected to be down 1% per year and Graduate credit hours are projected to be flat in FY22 and FY23. Graduate enrollment has been increasing and this may be conservative.

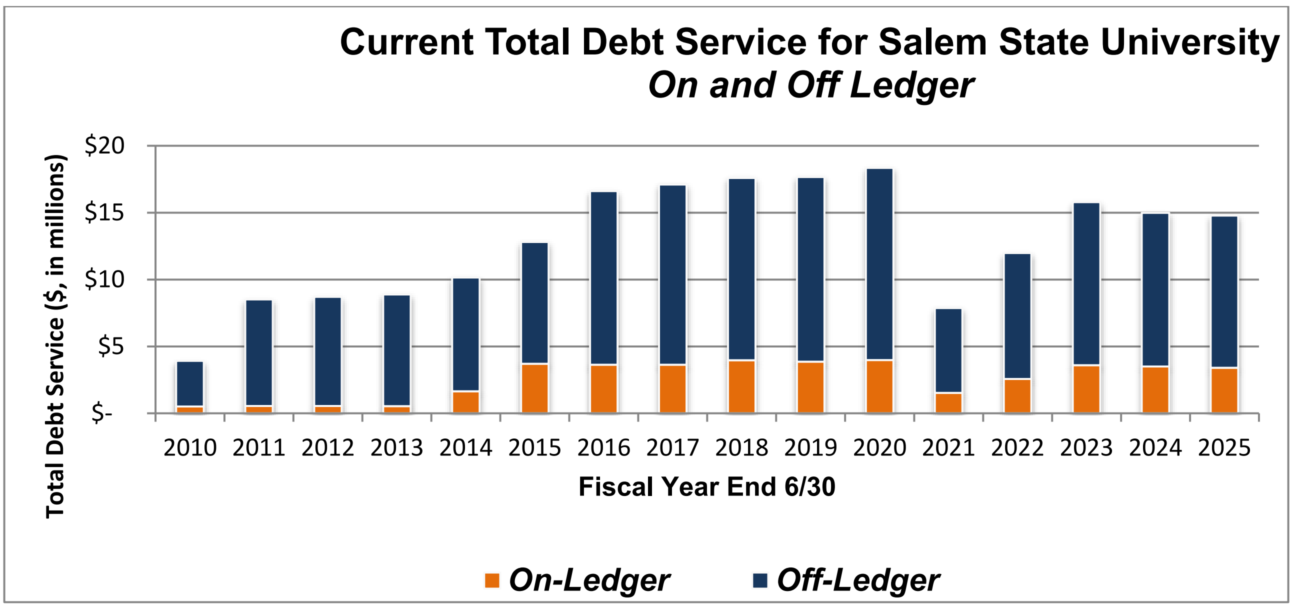


- The university is modeling blended tuition and fees to be flat for undergraduate day and continuing education students in FY22 and a 2.5% increase in FY23. Graduate rate configurations are currently being evaluated. Based on work done with EAB, unrestricted financial aid plus housing grants are projected to increase by $0.9 million in FY22 and $0.2 million in FY23. The BHE budget recommendation for FY22 includes a $26 million total increase in financial aid for the state university and UMASS system to support the expansion of need-based financial assistance and support to Pell-eligible students. This is significant for Salem State as the number of Pell-eligible first year students has increased from 32% to 51% from Fall 2009 to Fall 2019.
- Differential fees for programs that had their differential fees waived due to the COVID-19 pandemic in FY21 will be waived in FY22 as well ($0.3 million in revenue). FY23 assumes the reinstatement of the waived differential fees.
- Room and dining rates will be held flat in FY22 and are modeled to increase 3% in FY23. The current projection assumes an increase in fall housing occupancy of 376 students in FY22 and an additional 90 students in FY23 (934 in FY21, 1,310 in FY22, and 1,400 in FY23). In FY22 Viking and Atlantic halls are expected to have standard occupancy (a mix of double and single rooms), Bates hall will not have students assigned but will remain available for isolation & quarantine rooms as needed, and the remaining residence halls will be at single occupancy.

Expense Drivers:

- Compensation, the university's largest expense category, is estimated to increase by approximately $7.0M in FY22 compared to the FY21 forecast (primarily due to no furloughs and student labor savings assumed in FY22), and an additional $1.7 million in FY23. Consistent with prior years, a full review of budgeted positions is being undertaken as part of developing the sustainable plan for the future and the FY22 budget.

- Support costs are expected to increase by $0.4 million from the FY21 forecast to FY22. FY23 support costs are expected to decrease by $1.1 million, primarily driven by the elimination of covid mitigation costs.
- The fourth year of DCAMM's five-year critical maintenance plan will generate approximately $1.7 million in state support, which will be offset by additional spending on deferred maintenance.
- Interest Expense and MSCBA Assessment for FY22 will increase by $6.8 million; this is the result of the FY21 debt restructuring that captured the most savings in FY21 (see graphic below). In FY23, these expenses will be further increased by another $2.7 million.



NOTE: MSCBA made a payment on SSU's behalf for $2.8 million of interest for Fall 2021 total due.

Next Steps:

- The President's Executive Council ("PEC") is working with the campus on a multi-year strategy to address the structural imbalance in the university's finances resulting from the continued trend of declining enrollments. This plan that is being developed has been informed by a report issued by Strategic Path Forward Task Force on December 15, 2020.
- The COVID-19 pandemic's impact on the FY22 budget continues to be actively monitored and managed.
- Campus leaders are monitoring enrollment as the admissions cycle continues throughout the spring. Fees and financial aid allocations will be finalized.
- Below is a typical timeline for the Massachusetts state budget process:
    - Governor releases his budget recommendation in January
    - House Ways and Means committee releases its budget recommendation in mid-April

  - Senate Ways and Means committee releases its budget recommendation in mid-May
  - Conference Committee releases its budget report in June
  - The Governor signs the budget into law in July
- Recommended fee rates for FY22 graduate students will be brought to the Board of Trustees for discussion and approval.
- The budget plan will be discussed and refined throughout the spring. It will be brought to the Board of Trustees for discussion and approval through the Finance and Facilities committee in the May and June meetings.

Center for American Progress

American Rescue Plan Could Help Prevent State Public Higher Education Cuts

By Victoria Yuen March 10, 2021

Over the past year, 22 states have cut a combined $1.9 billion in funding for higher education for the fiscal year that ends in June—translating to roughly 3.8 percent of what those states were spending on higher education before the COVID-19 pandemic.[1] To absorb those cuts and other revenue losses, public colleges and universities have already laid off 304,600 workers.[2] Undergraduate enrollment has gone down 4 percent, with community colleges seeing the largest decline at nearly 10 percent.[3] And a number of public colleges have declared a financial state of emergency that allows them to lay off tenured faculty and close academic programs.[4]

Due to a combination of federal relief and emergency state funds, 23 states have avoided higher education cuts in the 2020–2021 fiscal year. (The fiscal year for most states starts on July 1 and ends on June 30.)

President Joe Biden is expected to sign the American Rescue Plan Act (ARPA) passed by Congress—a third relief package responding to the ongoing health and economic crisis that, among other things, provides state, local, and tribal governments with a significant investment of $350 billion in stimulus funding. While it is crucial that Congress consider longer-term fixes that maintain and increase state investment in public higher education, the funding in the ARPA could go a long way toward limiting additional cuts to higher education—if states use the money wisely. Public colleges and universities are as crucial an underpinning of this nation's economy and opportunity for people to pursue their dreams and support their families. That's why it is imperative that state leaders use the coming infusion of federal dollars to maintain—and ideally improve—their funding for higher education.

Using data on state appropriation cuts for the 2021 fiscal year reported by state newspapers, budget documents, and interviews, and especially a tracking resource maintained by New America and the State Higher Education Executive Officers Association, this issue brief explores how public colleges and universities are faring today—and why the state and local funding in the ARPA will be critical to these institutions' ability to serve students in the years to come.

The benefits and shortcomings of the COVID-19 relief packages

Prior to the ARPA, Congress passed two rounds of relief with a combined total of almost $37 billion for public and private higher education, which helped colleges cover a small portion of the costs they have incurred during the crisis.[5] The Coronavirus Aid, Relief, and Economic Security (CARES) Act—the first relief package passed in March 2020—provided $150 billion to state, territorial, and tribal governments. A tally of spending in 24 states, however, indicates that they put a total of only $2.2 billion of this funding toward higher education institutions and institutions' reopening costs.[6]

The relief package that was passed under the Trump administration in December 2020 did not provide funding to help state and local governments, meaning that while the package helped institutions in the near term by sending funding directly to schools, it did nothing to protect state funding for higher education.

The American Rescue Plan, which President Biden is expected to sign, will provide public higher education with $40 billion.[7] Additionally, the bill includes $350 billion for state, local, and tribal governments that will go a long way toward filling state budget shortfalls.[8] Each relief bill Congress has passed includes a "maintenance of effort" clause that requires states to maintain funding for higher education, but the provision can be waived.[9]

How higher education fared in state budgets for FY 2020–2021

Most states have constitutional or statutory requirements to balance their budget,[10] and the pandemic has led to dramatic revenue losses for many states due to falling sales and property tax revenues.[11] Public higher education accounts for 18 percent of state expenditures—the second-highest expenditure area after public benefits, which include unemployment benefits and food assistance.[12] That—along with the false assumption that colleges can easily make up for budget cuts by raising tuition—has made higher education a frequent target for belt-tightening during economic downturns.[13]

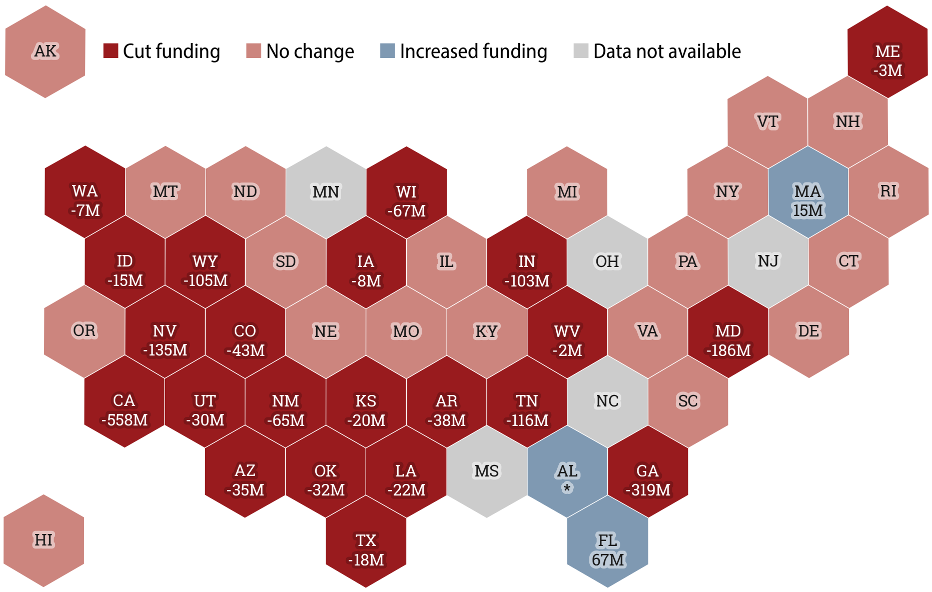
As stated above, 22 states have cut a total of $1.9 billion to higher education. For comparison, this number is twice the size of Mississippi's state appropriations from FY 2019–2020.[14] Twenty-three states had flat funding or increases, while the final funding figures in five states could not be determined based on a lack of available data. (see Figure 1)

Of the 22 states that cut appropriations for higher education, California made the largest cut at $558 million[15]—nearly 30 percent of the total $1.9 billion that states eliminated from their budgets.[16] In February 2021, the state legislature passed and Gov. Gavin Newsom (D) signed a bill restoring the $558 million for FY 2021–2022, but the cut remains in effect for the current year.[17] In Georgia, institutions faced a 10.8 percent reduction in their FY 2021 budgets, totaling $318 million in cuts—the second-highest state cut behind California. Maryland had the third-highest funding cut, with the budget stripping $186 million from higher education. A spokesman from Gov. Larry Hogan's (R) office cited the 11 percent to 14 percent drop in state revenue as a primary driver for these reductions.[18]

FIGURE 1

Higher education faced a total of $1.9 billion in state funding cuts for fiscal year 2021

Change in higher education funding from FY 2020 to FY 2021, by state



Note: The author was not able to identify final budget numbers in Minnesota, Mississippi, New Jersey, North Carolina, and Ohio. While Alabama is one of three states that increased its state appropriations, the author could not identify the exact dollar increase. Within the state, four-year institutions saw a 2.7 percent increase and two-year institutions saw a 2.1 percent increase in their state appropriations.
Source: A full list of sources is available at https://cdn.americanprogress.org/content/uploads/2021/03/08063840/Statecutstohigheredtablesources.pdf.

As dire as the higher education cuts have been in many states, there were nearly the same number of states—20 total—where public higher education budgets were unscathed. Some states, such as New Hampshire and Hawaii, operate on a two-year budget cycle and passed increases in state appropriations during the 2019–2020 legislative session, before the pandemic hit.[19] Alaska saw a decrease in state appropriations, but that too was determined prior to the pandemic.[20]

Three states—Alabama, Florida, and Massachusetts—increased funding for higher education in the 2020–2021 legislative session. In Massachusetts, the state legislature and Gov. Charlie Baker (R) approved a budget that was higher than the original proposed budget for fiscal year 2020–2021 by tapping into the state's rainy-day fund and utilizing CARES Act funds.[21] Alabama's state legislature and Gov. Kay Ivey (R) originally planned for a larger increase in state funding but scaled it back due to COVID-19-related budget cuts.[22] It is also worth noting, however, that Alabama is one of the worst-ranked states when it comes to per-student funding for higher education, as the state has largely failed to make up for the decreases in spending from the 2008 recession.[23] And Florida funded its higher education institutions at record levels despite losing $0.5 billion to $1 billion in revenue due to the pandemic, which Gov. Ron DeSantis' (R) office tied to a desire to keep Florida institutions high on national rankings.[24]

Some states cut higher education appropriations, but less so than they may have otherwise because they drew on federal funding provided through the CARES Act. For example, Louisiana used $100 million in federal funds to reduce a proposed $121.7 million in cuts down to $21.7 million.[25] Similarly, Kansas Gov. Laura Kelly (D) reduced a proposed higher education cut of $46.2 million to $19.9 million with CARES Act funding.[26] In Michigan, the state legislature passed an 11 percent funding cut for FY 2020 but used CARES Act dollars to restore the funding, ultimately resulting in a flat budget for FY 2021.[27]

How institutions have responded to cuts in state appropriations

As many states have cut their higher education spending, institutions have been forced to make drastic choices to fill their budget shortfalls. Wyoming cut a larger percentage of its higher education budget than any other state, at 15 percent.[28] As a result, in November, the University of Wyoming proposed to combine and eliminate 45 faculty positions, or 6 percent of its faculty.[29] Institutions in Nevada have implemented hiring freezes and furlough days for faculty, as well as student surcharges, as a result of the $135 million in state appropriation decreases for this academic year.[30] And about 10,000 University of California, Berkeley, employees will see a pay reduction of up to 3.84 percent due to the institution's pandemic-related financial challenges.[31] The university has already implemented a hiring freeze and department budget cuts to try to fill a $340 million shortfall from the pandemic, $42 million of which is from the loss in state appropriations.[32]

Public colleges and universities are dealing not only with state appropriation losses but also with enrollment declines, loss of housing and athletic revenue, and increased costs for COVID-19 testing and other campus health measures. Job losses provide perhaps the simplest insight into the substantial impact that all these losses combined will have on public higher education. While job numbers don't translate directly into educational quality, as so many public colleges are already underfunded, it was inevitable that cutbacks on this scale would be damaging. An estimated 13 percent of higher education jobs have been cut across the country, and some institutions have experienced much more dramatic losses. At the pandemic's peak in November, 350,900 public higher education employees lost their jobs nationwide, but there appear to be slow signs of recovery in this sector.[33]

At the City University of New York's John Jay College of Criminal Justice, more than 400 adjunct professors—almost 40 percent of the teaching force—were laid off due to the institution needing to close a budget gap estimated to be from $21 billion to $55 billion.[34] The fact that this occurred in a state that did not even cut appropriations this year should be alarming. And at the University of Texas at San Antonio, more than 300 employees were laid off as a result of state appropriation cuts and reduced revenues due to the pandemic.[35]

While, as detailed above, many faculty are experiencing layoffs or pay reductions, *The Washington Post* found that most higher education job losses have affected administrative workers who make about $40,000 per year, part-time employees, and younger workers ages 18 to 24.[36] Many of these workers are women and people of color,[37] and these losses will ripple through the low- and middle-income communities that colleges aim to serve.[38]

Beyond layoffs, institutions are also making other significant cuts in response to revenue losses. For example, despite an increase in state appropriations for higher education in Florida, some schools are feeling the effects of other financial losses such as the loss in revenue from tuition, athletic programs, and student housing. The University of South Florida is eliminating all undergraduate education programs and closing the university's College of Education due to a potential 8.5 percent reduction in state funding for the next two fiscal years, as well as broader budget challenges.[39] At the University of Michigan-Ann Arbor, officials halted construction on a new hospital in May 2020.[40] And due to budget constraints from the pandemic, administrators at many public research universities including the University of Arizona and the University of Pittsburgh have suspended graduate school admissions for some of their academic programs—largely in the humanities and social sciences—for this academic year.[41]

Why federal funding for states is important to next year's higher education budgets

Without additional aid to states from the federal government, estimates have suggested that states face a $290 billion budget shortfall for FY 2021, the current fiscal year ending in June, and an additional loss of $155 billion for FY 2022.[42] Many states have been planning for additional higher education cuts in FY 2022. While Florida increased its funding for postsecondary education this year, members of the Florida Board of Education are considering raising tuition at both two- and four-year institutions in order to cover expected cuts to higher education funding.[43] Similarly, in Hawaii, Gov. David Ige (D) proposed a $70 million cut in state funding for higher education for the FY 2022 and 2023 budgets.[44] In Kansas, in response to Gov. Kelly's proposal for a $37 million cut in higher education funding and other budget issues, the Board of Regents approved a temporary measure to allow administrators to fire tenured faculty.[45]

But now that the ARPA has passed, there is hope that further damage can be avoided—unlike what happened in the wake of the Great Recession, when state budget cuts to higher education worsened over the course of several years and in many states never returned to pre-recession levels. From 2008 to 2012, states cut about $33 billion from higher education.[46] Although state appropriations have increased from 2012 to 2019, collectively states have only recovered two-thirds of what they received in state appropriations prior to the Great Recession.[47] In 2019, only seven states had returned to their pre-recession funding levels.[48]

As a result of this disinvestment, many public institutions shifted much of the cost of education onto students and their families. From 2008 to 2018, the net price of tuition at public four-year universities—after accounting for grants and scholarships—increased by 24 percent, or roughly $2,920 in today's dollars, according to the Center on Budget and Policy Priorities.[49] Allowing history to repeat itself—while starting from an even lower baseline of state support for higher education—will have serious consequences for future students.

Conclusion

While it's been a tough year for state budgets and higher education, state and local aid provided in the American Rescue Plan Act will help limit the already-damaging cuts to state appropriations thus far. It remains to be seen how states will use funding to stave off or minimize future cuts to higher education or how state budgets will fare over the long run. States should use their funding, in part, to maintain their investments in their public higher education budgets, especially at the community college level. However, the impact from the pandemic could be long-lasting. Congress should consider additional ways to reinvest in America's future through a commitment to making college affordable, as well as through long-term investment that mitigates the boom-and-bust cycle of state budgets.[50]

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Metrics – EY Parthenon (EYP) Analysis

- BHE commissioned a study last spring
- Focused on FY21 (pandemic)
  – Are institutions at risk of running out of cash due to pandemic?
    - No
    - Variability in liquidity amongst institutions
  – BHE should be more proactive in monitoring
    - What metrics would assist?
- Slides to follow were created by EYP

Financial health

Liquidity in terms of average monthly cash outflows can measure ability to meet cash obligations; in aggregate this metric has ranged from 3-5 months

Liquidity in terms of average monthly cash outflows

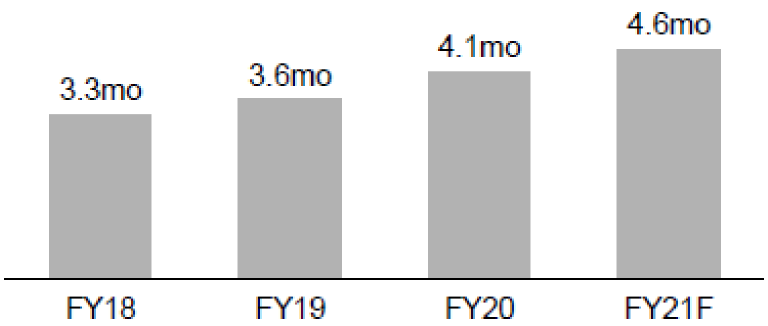
Available liquidity

- Includes cash & equivalents, short-term, and long-term investments
- Excl. non-cash fringe benefits, restricted cash and cash held by other entities
- Excl. cash and investments held by component units (e.g. foundation)

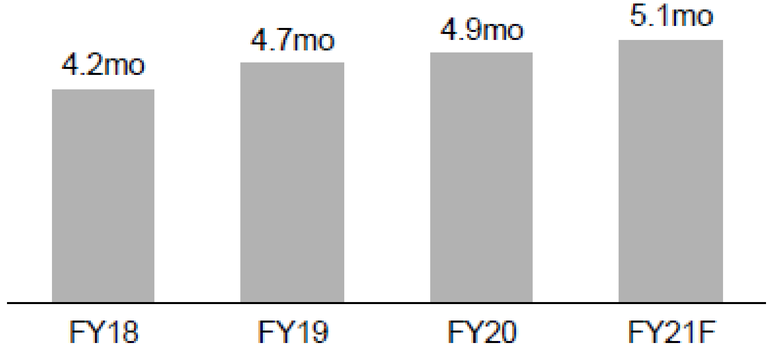
Average monthly cash outflows

- Includes cash operating expenses, debt servicing costs[1], net working capital and purchase of capital assets
- Excl. depreciation, pension & OPEB, and other non-cash items

Available liquidity in terms of avg. monthly cash outflows at community colleges*,
FY18 – FY21F



Available liquidity in terms of avg. monthly cash outflows at state universities*,
FY18 – FY21F



1) Includes residence lease payments (MSBCA), debt service (interest expenses), capital expenditures, bond principal repayments, and lease obligations
*Note: Total is illustrative, does not reflect inability to consolidate/pool funds
Source: Internal data and management budgets/forecasts

Financial health

In FY21, cost containment and increased state support have helped to offset enrollment-related revenue pressures though liquidity position varies by campus

Summary and next steps

- The project worked with institutions to collect and update financial health data as scenarios evolved
- Institutions have balanced budgets in FY21, offsetting a decrease in enrollment-related revenue through cost containment measures
- Higher-than-budgeted state appropriations have further offset revenue loss and a second round of federal stimulus will provide an additional ~$122m for MA institutions* over the next calendar year
- MSCBA restructuring reduced the FY21 assessment expense at state universities, mitigating the challenges of having to close or reduce capacity in residence halls
- While in aggregate the system has ~3-5 months of liquidity in terms of average monthly cash outflows, considering as a whole does not account for wide variability in liquidity positions among institutions
- Beyond FY21, as enrollment pressures continue and one-time savings/funding may disappear, regular financial health monitoring can provide necessary data to support autonomous institutions

Note: excludes UMass
Source: Internal data, U.S. Department of Education HEERF II program information

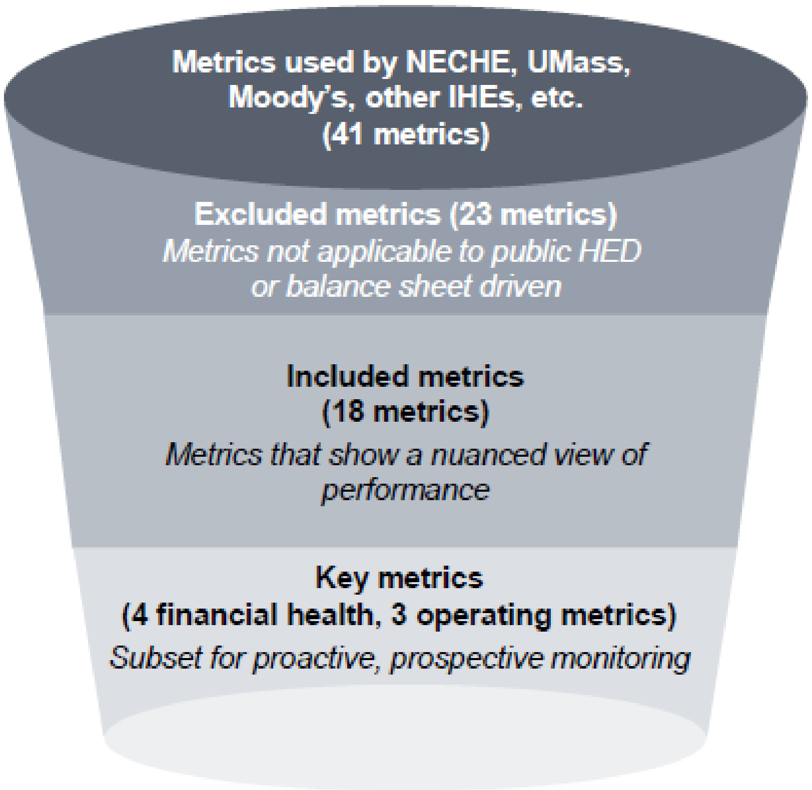
Reporting and key metrics

From a long list of financial metrics used in higher education, the project identified key metrics to provide a snapshot of fiscal health

Goal – identify a subset of metrics that are:

- Relevant to public higher education
- Focused on cash and liquidity
- Comprehensive, non-redundant with other metrics
- Flexible to be updated on an interim basis
- Frequently used and easy to interpret

Methodology to identify key financial health metrics



ource: interviews, university, accreditor, and other websites

Reporting and key metrics

A liquidity metric can summarize revenue and expense trends and signal potential risk while other key metrics can provide context and detail

Proposed potential metrics for continued discussion by FAAP and other stakeholders

	Summary metric	Other key financial health metrics	Operating metrics
Metric(s) and definition	1 Liquidity in terms of average monthly cash outflows	2 Operating margin (%) 3 Net cash flow ($) 4 Debt service coverage (x)	5 Change in enrollment (%) 6 State and student revenue per credit or FTE ($) 7 Cash outflows per credit or FTE ($)
Rationale	▸ Comparable across institutions ▸ Measure of ability to meet cash obligations ▸ Can be used to indicate need for additional information	▸ Provides additional context to summary metric ▸ Shows effects of longer-term decisions via depreciation and debt service	▸ Leading indicators based on drivers of financial health ▸ Can be used to monitor impact of changes to operating model
Key considerations	▸ Transparent, clear ▸ Reflects changes both revenue and expenses ▸ Cash focused, able to be calculated on forward-looking basis	▸ Set of supporting metrics should be non-redundant ▸ Numerous enough to give context, streamlined enough to be actionable	▸ Should be refined with institutions, academic committee, equity agenda, PMRS, etc. ▸ Can align methodology and definitions where data may be tracked inconsistently

Source: Internal data

Metrics EYP proposed for consideration

- Liquidity (avg months cash)
- Operating margin %
- Net Cash Flow
- Debt service coverage (x)
- Operating metrics:
  - Change in enrollment
  - State & student revenue per credit or FTE
  - Cash outflows per credit or FTE

FY21 Overview for State Universities DRAFT

State University

SAL

MASSACHUSETTS Department of Higher Education

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Cash Metrics

Avg. Months - Available Liquidity**	Total Net Cash Flow (in $M)
4.5	$1.8

Avg. Available Liquidity ***
5.9

Other Financial Metrics

Operating Margin %	Total Revenue (in $M)	Debt Service Coverage
0.5%	$162.1	1.5

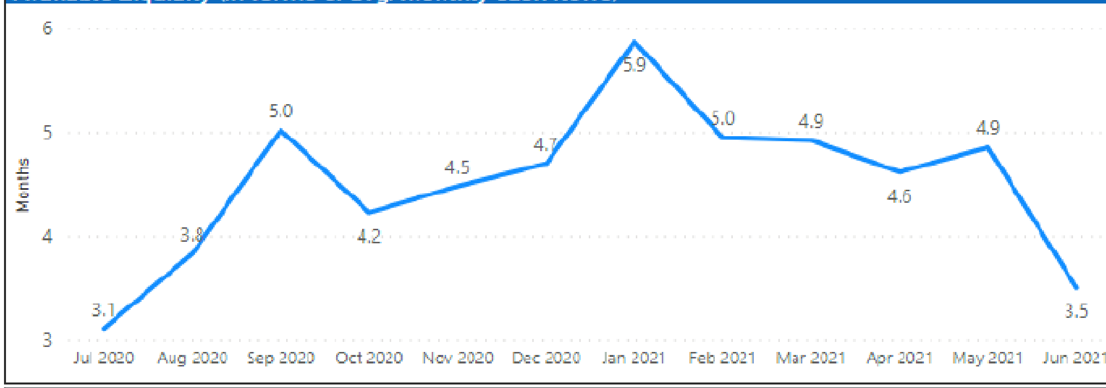
Avg. Operating Margin % ***	Avg. Debt Service Coverage ***
-0.3%	1.2

Operating Metrics

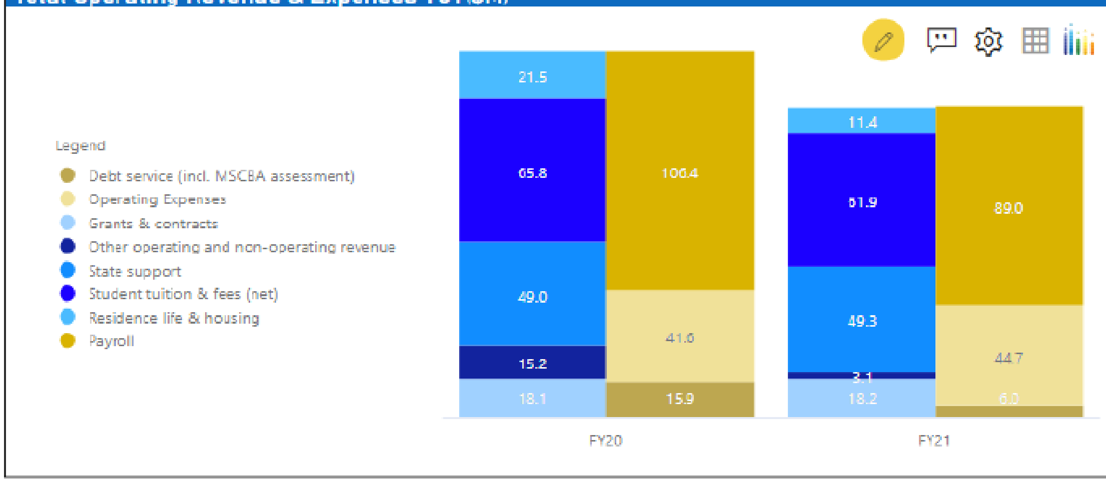
Change in Enrollment (Year over year)	State and Student Revenue per FTE ('000)	Cash Outflows per FTE ('000)
-7.2%	$21.1	$25.4

Avg. Year over year Change in Enrollment ***	Avg. State and Student Revenue per FTE ('000) ***	Avg. Cash Outflows per FTE ('000) ***
-8.3%	$20.0	$25.7

Available Liquidity (in terms of avg. monthly cash flows)



Total Operating Revenue & Expenses YOY($M)*



* Revenue and Expenses amount do not include non-cash items, capital appropriations and capital purchases

** In terms of average monthly cash flows

*** Averages based on straight-line (non-weighted) basis

Salem STATE UNIVERSITY

FAAP Chair LaRock thanked Chair Gabrieli for the continued opportunity to serve the Commonwealth and presented a PowerPoint slides on enrollment trends in higher education. He expressed his hope that the FAAP committee and the Board could work to reverse the trend in Massachusetts.

IV. COMMISSIONER'S REMARKS

Commissioner Santiago offered no remarks and noted that he would turn his role over to staff.

V. PRESENTATION

List of Documents Used
EY Parthenon PowerPoint Presentation, January 26, 2021

Committee Chair Member LaRock introduced Haven Ladd and Courtney Selden from EY Parthenon to discuss their report on monitoring the fiscal health of public institutions of higher education. Ms. Selden explained that the focus of EY Parthenon's report was on liquidity, specifically cash flow. She noted that the report had been developed by working closely with the Department, as well as campus presidents and CFOs.

Ms. Selden stressed that in a decentralized system such as Massachusetts' system, local leaders at the campus level have autonomy and decision-making authority for the management of resources, but that BHE needs to have an approach to proactively monitor the fiscal health to fulfill its mission. Instead of relying on backward-looking data from campus audits, EY Parthenon recommends that the Board adopt an approach that retains campus control over budget decisions, but adds a layer of oversight by the Department with respect to their prospective fiscal outlook.

Ms. Selden introduced the EY Parthenon report by reviewing the process of identifying the key financial metrics that focused on cash and liquidity. In EY Parthenon's view, cash flow metrics are easy to understand and interpret, and are not limited by balance sheet timing, which allows for updating on a periodic basis.

Ms. Selden discussed the how the report's liquidity metric was supported by monitoring other metrics related to changes in operating margins, net cash flows, and debt service coverage. Ms. Selden noted that these metrics are similar in approach and intent as the proposed financial stewardship metrics in the Performance Measurement Reporting System (PMRS), though they are less static and more forward focused.

Ms. Selden presented the monthly cash flow reserves of the Community Colleges and State Universities, noting that there was variability in the reserves among institutions. Ms. Selden suggested that based on their work, EY Parthenon would recommend that the DHE work to align the metrics with the Community Colleges and State Universities. She also suggested that the Department seek further clarification about noted differences or changes in an institution's score on a particular metric.

Ms. Selden noted that the Community Colleges' cash flows track to enrollment and suggested that the Department consider separating out student-related federal and state aid to students. She added that EY Parthenon's report recommended aligning the metrics with the voluntary framework of accountability already adopted by Community Colleges.

Ms. Selden continued by observing that the State Universities' cash flows also track with enrollment numbers, but that the impact of COVID has dramatically reduced revenue from dormitory rents. Ms. Selden added that the EY Parthenon report was also recommending that the Department explore the impact of revenue generated by graduate degree programs at State Universities.

Ms. Selden closed EY Parthenon's presentation by suggesting that the Department provide guidance on the liquidity metric, determine which additional metrics to adopt, and develop a process for sharing information across the organization and with campuses.

Committee Member Michael O'Brien joined the at the FAAP meeting as of 1:57 p.m. at the approximate midpoint of the EY Parthenon presentation.

VI. DISCUSSION

List of Documents Used
Draft FAAP Recommendations to BHE: Monitoring Fiscal Health of Massachusetts Public Higher Education

Upon the conclusion of EY Parthenon's presentation, Committee Member Paul Mattera asked whether the metrics that were developed in the report were adopted through a process that included the campuses. Ms. Selden answered that EY Parthenon surveyed campus CFOs on the data collection and met with segmental CFOs to iterate on the metrics. Committee Member Mattera asked EY Parthenon if it had discarded any metrics from consideration. Ms. Selden responded that most of the discussion surrounded the inclusion or exclusion of the component units or foundation funding as part of the analysis.

Board Chair Gabrieli added that the threshold for cash availability as a measure of fiscal health seemed to be the correct top-level benchmark. He noted that in general, Massachusetts' public campuses appear to have adequate reserves. He asked Deputy Commissioner for Administration and Finance, Tom Simard to comment on the CFOs' response. Deputy Commissioner Simard noted that the campus CFOs were very helpful in informing the development of the proposed monitoring metrics and providing detailed data to inform the current summary analysis. Deputy Commissioner Simard added that more work needed to be done by DHE staff and a representative group of CFOs to ensure that the reporting and monitoring process is both efficient and sustainable. Deputy Commissioner Simard also commented on the need to establish a reasonable cadence for the data collection and reporting that aligns with the key fiscal checkpoints in the fiscal calendar.

Committee Member Veronica Conforme asked for the groups' thoughts on indicators that could give the Board early warning about a campus' fiscal health. Deputy Commissioner Simard added that the DHE is also looking at leading indicators such as enrollment that drive revenue. Commissioner Santiago added that the state must adequately fund higher education in addition to monitoring their fiscal situation.

Committee Member Michael O'Brien asked whether there was a point at which the Board should take action after it observes declines in the metric. Chairman Gabrieli suggested that the Board should establish a threshold of approximately 2 to 4 months of cash below which would trigger a response from the Department. Chairman Gabrieli added that developing the Board's response was an ongoing question.

Board Member Judy Pagliuca asked if any of the considered metrics could help us understand the financial flexibility of each institution, such as fixed costs (tenure maybe) versus variable costs (adjuncts)? She asked whether these could give us an indication of how quickly an institution can respond to negative market conditions?

Committee Chair LaRock suggested that the FAAP committee use its role to examine what metrics indicate that a college or university is financially sound, and to develop strategies to strengthen all campuses.

Committee Member Mattera a noted that in addition to understanding the degrees of fiscal management, the FAAP committee must also consider, what if any, regulatory role the board would play. Commission Santiago added that some of the lessons learned from the Department's experience monitoring the private institutions in FY21 would inform any discussion around the development of procedures to monitor public institutions.

Chair Gabrieli shared a document entitled "Draft FAAP Recommendations to BHE: Monitoring Fiscal Health of Massachusetts Public Higher Ed." He cautioned that the document was a work in progress, and suggested that he wished to be in the position to present the full scope of the project to the Board at the meeting on February 2, 2021, including a review of the Board and Department's current statutory authority. He expressed his wish that the Department would adopt policies to continue its ongoing oversight role. He also suggested that the Board adopt a clear liquidity benchmark for the campuses and suggest that the Board adopt guidelines by June 22, 2021.

Committee Member Mattera suggested that he could support the document shared by Chair Gabrieli with the caveat that it states the fiscal metric it intends to measure. Committee Member Conforme approved presenting the draft document to the Board but requested additional time to review the document.

General Counsel Papanikolaou noted that the document had not been added formally to today's agenda for review or a vote. Accordingly, instead of endorsing the document through any formal action, she suggested that the FAAP Committee could provide the Board with a summary of today's discussion and confirm the FAAP Committee's general consensus, including consensus that the document would benefit from further consideration before a formal document is presented to the Board for a vote. Tom Moreau asked for clarification as to whether a document would be presented to the Board next week for a vote. Chair Gabrieli replied that the document would be presented for review on February 2, 2012, but no formal vote would take place until June 22, 2021.

Chair Gabrieli excused himself from the meeting at 2:37 p.m., prior to the presentation of and votes on FAAP 21-01 and FAAP 21-02

VII. MOTIONS

A. FAAP 21-01 FISCAL YEAR 2022 RENT SCHEDULE AND OPERATING BUDGETS MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

<u>List of Documents Used</u>
FAAP Motion 21-01
FY22 Schedule of Proposed Rents and Operating Budget

Committee Chair LaRock thanked EY Parthenon and invited Edward Adelman, the Executive Director of the Massachusetts State College Building Authority to present to the FAAP Committee its annual schedule of rents. Mr. Adelman explained the MSCBA work with the State University CFOs and Presidents to maximize the near-term savings while maintaining the structure to repay the debt.

Mr. Adelman continued to present the annual rents and revenues noting that occupancy capacity has not increased since 2016. Mr. Adelman discussed the impact of COVID on the MSCBA's ability to hold 5% reserves in its Residence Hall Trust Fund. Mr. Adelman projects a potential need of $8M to maintain the correct reserve amounts. Mr. Adelman reviewed the rent, additional financial assistance distributed by the MSCBA, along with a comparison of rents across other states.

Mr. Adelman discussed MSCBA budget noting the effect of declining rent revenue, and the deferred contributions to the Multipurpose and Supplement Reserve funds. He added that the MSCBA budget is level funded for FY22 at just over $2 million, which would be the third consecutive year of negligible growth in the non-capital operating budget for the Authority. With capital funded costs, the budget is set at $2.6 million, which is comparable to the revised approved budget for FY21.

Salem State Sustainability Update February 2021

Progress on North Campus Decarbonization Planning

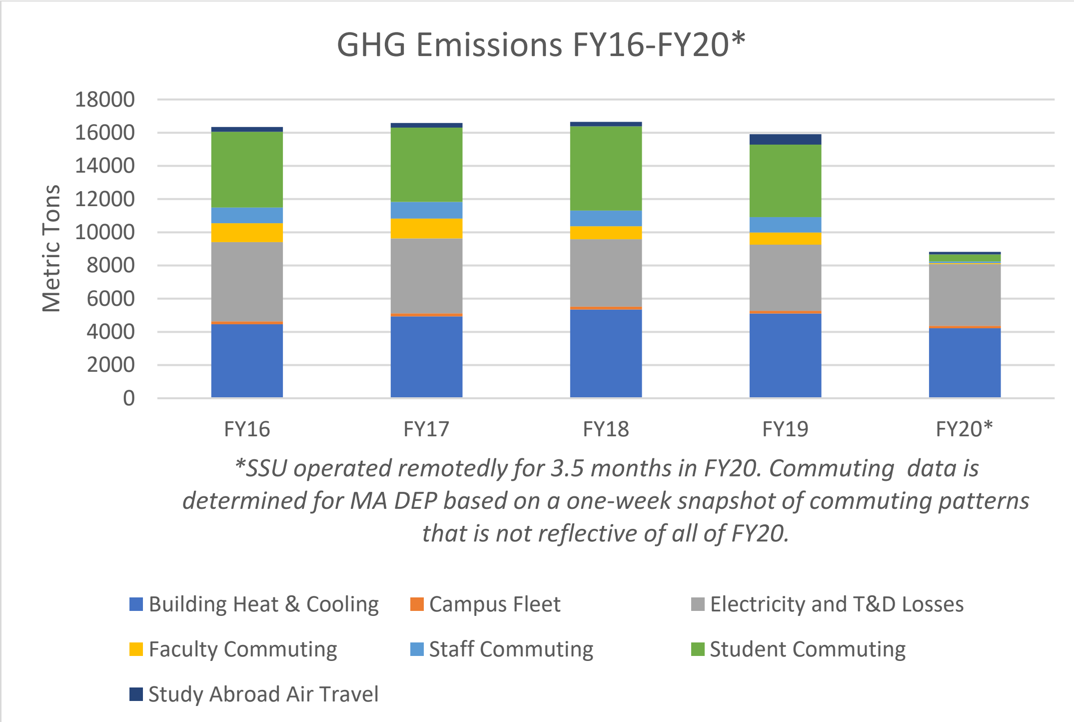
Salem State's North Campus Energy Study working group and consultants MEP (funded by a $100,000 grant from the DOER Leading By Example program) are developing plans to move north campus away from fossil fuels to help meet the university's 2050 carbon neutrality goal. The study will wrap up in late spring but some themes are emerging. Salem State's initiatives to transform the heating and cooling systems across campus will likely involve these approaches:

- reduce demand through energy efficiency
- incorporate technologies such as geothermal energy and air source heat pumps
- transition from gas-powered steam to low-temperature hot water for central heating plant
- establish standards for new buildings or major renovations to ensure that these structures are energy efficient and reliant on renewable technologies or electricity
- creative and careful development of funding sources to support the plan; under development is a life cycle cost analysis of the cost of business as usual compared to implementing the strategies in the plan

To learn more, please attend the Earth Days Panel: *SSU North Campus Clean Energy Roadmap* to be held on Thursday, April 15th from 4:30 – 5:30 pm. Mike Hovanec of MEP will discuss the 2050 clean energy roadmap for North Campus. Please register using this link.

Annual Greenhouse Gas (GHG) Emissions

The sharp 45 percent reduction in greenhouse gas emissions from FY19 – FY20 seen below illustrates the significant role that drive-alone commuting plays in Salem State's emissions. As required by MA DEP, we estimate commuting impacts during a one-week snapshot during the year. Usually the snapshot, along with information about instruction days and student and staff numbers, provides a reasonable picture of the year's commuting impacts. For consistency, we followed the same method this year, resulting in FY20 emissions that reflect the pandemic as opposed to the entire fiscal year.



Earth Days Events. April 12-16th. There Is No Planet B.

All are welcome to attend the Earths Days events. Please preregister for the highlighted events listed below. The full schedule of events is available at: www.salemstate.edu/earthdays. Video recordings of the major events will be available a few weeks after the event at the same link.

Date/Time	Topic	Details	Links
Wednesday, March 10th			
4:30 – 5:30 pm	Panel: *Resilient Cities: How are Beverly and Salem Preparing for Climate Change?* With Barbara Warren (Salem Sound Coastwatch), Esmeralda Bisono (City of Salem) and Estelle Rand (Beverly City Councilor)	Co-sponsored with Resilient Together (Beverly/Salem), Salem Sound Coastwatch, and Sunrise Salem	Please register in advance here.
April 12th – May 5th			
April 12 – May 5, 2021	There Is No Planet B: Earth Days Mail Art Exhibition, Competition & Sale	Postcard art addressing climate change. **Art submissions are due April 1st.** Anyone may participate.	Webpage
Monday, April 12th			
11:00 – 1:00 pm	Virtual Poster Competition – judging and viewing	Students present their research posters for judging. This is the only juried research competition at Salem State. Cash awards are provided courtesy of the Tefferteller Peace Fellowship.	Webpage will provide link.
4:30 – 5:30 pm	Lecture: St. Paul's School Teacher Joshua Duclos on: *Between Justice and Goodness: Conflicting Responsibilities in the Face of Climate Challenge*	Co-sponsored by the SSU Philosophy Department	Check Earth Days webpage for zoom link
Wednesday, April 14th			

4:30 – 5:30 pm	Lecture: Northeastern U Prof. Jennie Stephens on: *Diversifying Power: Why We Need Antiracist, Feminist Leadership on Climate and Energy*	Co-sponsored by the SSU Center for Economic Development and Sustainability (CEDS) in the of Geography and Sustainability Department and Sunrise Salem	Please register in advance here.
Thursday, April 15th			
4:30 – 5:30 pm	Panel: *SSU North Campus Clean Energy Roadmap.*	Mike Hovanec of MEP will discuss the 2050 clean energy roadmap for North Campus.	Please register in advance here.
7:00 – 7:40 pm	Lecture: SSU Geography and Sustainability Prof. Marcos Luna on: *The Geography of Environmental Injustice in New England*	Co-sponsored by the SSU Library and the Center for Research & Creative Activities (CRCA)	Check Earth Days webpage for zoom link
Tuesday, April 27th			
7:00 – 7:40 pm	Lecture: SSU History Prof. Avi Chomsky on: *Pandemics, Climate Change, Social and Racial Justice*	Co-sponsored by the SSU Library and the Center for Research & Creative Activities (CRCA)	Check Earth Days webpage for zoom link

Capital Projects Status Update
February, 2021

PROJECTS UNDER CONSTRUCTION

Administration roof replacement
Anticipated completion: Winter 2020 / spring 2021
Budget: $2,512,320 (DCAMM funding of $1,604,731)
- Replacement of the roofing and repairs to the utility tunnel ceiling
- Under construction
- Anticipated completion May 2021 (overdue)

Automated building controls – phase 1
Anticipated completion: Summer 2021
Budget: $1,046,010 (DCAMM funding of $608,703)
- Currently in design
- Update legacy controls hardware to open network system

Berry Library HVAC repair
Anticipated completion: Summer / fall 2021
Budget: $724,100 (DCAMM funding of $724,100)
- Design for the repair and replacement of malfunctioning equipment
- Phase one, system commissioning underway
- Equipment replacement will occur summer 2021

Dining improvements
Anticipated completion: Spring 2021
Budget: $200,000
- Enhanced exterior seating has been delivered
- Awaiting delivery and installation of enclosure. Delayed due to COVID

Gassett HVAC repair
Anticipated completion: Spring 2021
Budget: $55,000
- Design to add humidification to the HVAC in the gym
- This project will be bundled with the roof replacement

O'Keefe roof replacement
Anticipated completion: Spring 2021
Budget: $3,360,814 (DCAMM funding of $2,583,507)
- Replacement of the roofing on the entire building and kalwall window system on the third floor

Capital Projects Status Update
February, 2021

PROJECTS IN PLANNING/STUDIES

Alumni Field turf replacement
Anticipated completion: Summer 2021
Budget: $765,000

- Replacement of the turf field
- Currently out to bid

Horace Mann façade repairs
Anticipated completion: Summer 2021
Budget: $31,500 (DCAMM funding of $31,500)

- Study of building façade to assess masonry failures

Lighting upgrades – campus wide
Anticipated completion: Summer 2021
Budget: $2 – 3m estimated (anticipated DCAMM & NGrid contribution of $1.5 – 2.5m)

- LED lighting upgrades throughout campus.
- Potential annual utility savings of $200,000 per year

O'Keefe parking lot assessment
Anticipated completion: Summer 2021
Budget: $75,000

- Study for structural repair of parking lot.
- Study will also assess viability of solar canopies

Meier Hall roof replacement – phase 3
Anticipated completion: Summer 2021
Budget: $220,000 (DCAMM funding of $217,462)

- Waterproofing of the 6th floor exterior walls and greenhouse
- Currently in design

Sullivan elevator
Anticipated completion: Winter 2021
Budget: $30,000

- Study for the replacement of the Sullivan building elevator

Sullivan basement structural repairs
Anticipated completion: 2021-22
Budget: $1,000,000 (DCAMM funding TBD)

- Demolition of former coalbunker in parking lot
- Additional scope has been added to improve ADA access to the building

Finance and Facilities Committee Work Plan for FY21
March 16, 2021 updated

September 23, 2020 w BOT Sept. 23, 2020

- Finance and investment matters
  - Eastern Bank establishment of new bank account for ACH (action)
  - Investment performance for period ending June 30, 2020
  - FY20 preliminary results
  - FY21 budget status
  - FY22/future – high level projections
  - Financial dashboard

- Real estate, facilities, and sustainability
  - DCAMM funding and five-year critical repairs plan
  - Sustainability update
  - Capital projects status update

- Other
  - Committee charter
  - Committee work plan for the year

November 18, 2020

- Business model: Cost structure – business intelligence

January 27, 2021 w BOT February 24, 2021

- Finance and investment matters
  - Investment advisors – review calendar 2020 performance
  - FY21 Q1 financials
  - Financial dashboard
  - FY22 budget planning and status of recommendations from Sustainable Path Forward Task Force
  - FY22 Motion to Hold Undergraduate (Day and Evening) Tuition and Fees Flat (Action)

- Real estate, facilities, and sustainability
  - Sustainability update
  - Capital projects status update

February 24, 2021 w/Board of Trustees

  - Graduate and continuing education fees for FY22 (action)

Finance and Facilities Committee Work Plan for FY21
March 16, 2021 updated

March 24, 2021 w BOT April 14, 2021

- Finance and investment matters
  - FY21 Q2 financials and Financial dashboard
  - FY22 budget planning
  - Metrics – EY Parthenon Study

- Real estate, facilities, and sustainability
  - Sustainability update
  - Capital projects status update

May 26, 2021 w BOT June 9, 2021

- Finance and Investment Matters
  - FY22 all funds budget (action) (includes trust funds, transfers, & contracts > $500K)
  - FY21 Q3 financials
  - Financial dashboard

- Real estate, facilities, and sustainability
  - Sustainability
  - Capital projects status update