

OWENS COMMUNITY COLLEGE  
BOARD OF TRUSTEES  
FINANCE COMMITTEE MEETING  
May 26, 2020

A meeting of the Finance Committee was held by videoconference and limited in-person members of the Board of Trustees, in accordance with the policies of the Board of Trustees, Ohio Revised Code, Section 121.22 and Chapter 3358, Ohio executive orders and Section 12 of Am. Sub. House Bill 197, as signed by the Ohio Governor. A public link to the videoconference was provided on the public meeting notice on the College's website.

**Call to Order** – Jason Johnson called the meeting to order at 11:14 a.m.

**Roll Call** – Roll Call was taken, and the following committee members were present: Jason Johnson, Ed Nagle, and Rita Russell (3).

Mr. Johnson commented that the focus of this meeting was for a review of the draft Fiscal Year 2021 budget with the Treasurer.

**Approval of Minutes** – The minutes of the January 28, 2020 and April 24, 2020 meetings were sent in advance and hearing no corrections, Mr. Johnson declared the minutes accepted as submitted.

**FOLLOW UP FROM PRIOR MEETINGS**

Mr. Johnson requested a follow up on past meeting items from Jeff Ganues, Vice President of Business Affairs, Chief Financial Officer and Treasurer.

Delegation of Authority – Mr. Ganues recommended no adjustments at this time, and he commented that no issues have come up during the public health crisis period and that he would be pleased to address specific concerns. Mr. Ganues referenced the language in the 3358:11-4-12 Purchasing Policy that addressed the determination of an emergency situation, and he noted that he meets regularly with the budget staff. Mr. Johnson asked if the expenditure amounts for authority levels below the vice presidents should be tightened up? Mr. Ganues responded that expenditure amounts between \$10,000 and \$50,000 (require prior authorization) from the vice presidents and CFO; and purchase requisitions are returned if insufficient funds.

Cash Burn Rate – Mr. Ganues shared the details of the cash flow, including cash receipts and expenses breakdown into the major revenue and expenditures categories, such as payroll, accounts payable, capital spending and other. He commented that transfers reflect monies going through the different bank accounts for cash and investments, and all of the receipts and expenses go through the general operating bank account. Review processes are in place before direct deposits are released. Mr. Ganues commented that the current cash balance line shows the College position at the end of the month, and it is reviewed daily. The average per day amount is \$177,000, an approximate calculation divided by 12 months. Mr. Ganues commented there is more control for accounts payable and capital spends. Mr. Johnson clarified that for the month of April, the College generated cash of \$100,000 but transferred in \$750,000 to accommodate that. Then there was cash outflow of \$650,000 more than revenue brought in. Mr. Ganues confirmed Mr. Johnson's observations were correct. Mr. Johnson continued and noted that for the month of May, the College is forecasted to burn another \$55,000. Mr. Johnson asked if there could be a separate line

item for “cash flow from operation,” which would provide the members of the Finance Committee with a feel for the financial health. Mr. Ganues responded affirmatively. Mr. Johnson further explained the separation would give a better feel for cash in and cash out; allow better planning for activities to manage cash; and, if there is a financing issue, that would be addressed separately. From ongoing operations, there would be a clear understanding of, “Are we generating cash or not?” **Mr. Ganues clarified that moving the “transfers to/from cash/investment accounts” line item further down on the cash flow summary detail will better show the cash flow from operations.**

Financial Contingencies – Mr. Ganues commented that contingencies will be included in the FY 2021 budget review.

### **DRAFT FISCAL YEAR 2021 BUDGET REVIEW**

Mr. Ganues commented on the draft FY 2021 budget that was mailed to trustees in advance of the meeting. He noted that the overall proposed budget shows a \$1,419,745 Net Gain in Position; and, (\$1,5180,255) Operating Loss After Depreciation.

Mr. Ganues commented on the development of the FY 2021 budget and then the process to adjust the budget based on projections of reduced support from the state, as a result of the pandemic and the economy. He commented on the Ohio Department of Higher Education’s prediction of a 20 percent cut of State Share of Instruction; and, he noted that if the cut may be larger, then he would rely on financial contingencies. Mr. Ganues also noted that if the cut may be less, then he would want to review the budget to see what may be restored or placed toward the bottom line. These types of conversations may take place in the future.

Mr. Ganues commented on the initial \$1.4 million reduction of non-wage items with the cooperation and understanding of the budget authorities; and then he asked the Vice Presidents to revisit their divisional budgets for a further reduction of about 5 percent, including decreases in travel and professional development. Overall, the Vice Presidents provided a total expense reduction of about 7.9 percent for the second round of cuts. Mr. Johnson clarified that the additional cuts were discreet actions and not across-the-board cuts, which Mr. Ganues confirmed that was correct. President Robinson commented on the controls in place since the fiscal watch period, which helped with the budget development and being lean to begin with; some of the cuts in travel will impact some of the work toward strategic initiatives.

Mr. Ganues reviewed the practices and guidelines (pages 2-3) of developing the budget, and he commented on the \$100,000 set aside for operating contingencies (usually used for lab/courses/other essential operations), which was less than the prior year, \$350,000. In response to a comment from Mr. Johnson about less surprises through the fiscal year, Mr. Ganues commented that there will be serious conversations about finding dollars in the divisional areas before touching the operating contingencies. The members of the Finance Committee agreed with the Treasurer’s approach. Mr. Ganues commented on the \$1.8 million vacancy factor for unrestricted salaries, which was increased from the prior year, \$920,000. Mr. Ganues commented on asking the Vice Presidents to wait to hire in order to help with savings, and through the vice president position review process each vice president is asked to include a delayed anticipated start date or to consider keeping a position vacant. The vacancy factor for next year will be set at 7 percent, as compared to the current 4.5 percent vacancy factor.

Mr. Ganues reviewed the financial dashboard (page 4), and he commented that summer semester enrollment is projected for a decrease from the impact of the pandemic. Amy Giordano, Vice

President, Enrollment Management and Student Services, commented on the two rounds (pre-and-post-pandemic) of developing the enrollment projections for summer semester. The initial targets were decreased, ↓26 percent, and there has been extraordinary efforts through the review of enrollment trends and the class schedule. Mr. Ganues also commented on the required drop of students who owe a prior term tuition balance, and Ms. Giordano commented that the drop may have been higher than usual, although Student Services will be working with students toward payment arrangements so that they can be enrolled for summer semester. In response to a question on impact to graduation targets, Ms. Giordano commented on working with all students, including the pending candidates for graduation, to help them set up an acknowledgment of debt and to keep students continuing toward completion. Mr. Ganues commented on the estimated \$940,000 revenue decrease, due to projected enrollment decreases, even with the increased tuition rate.

Ms. Giordano commented on waiting for the Governor's guidance for higher education for the responsible reopening of campuses, and waiting on any subsequent review of projections for fall semester enrollment. She noted that to-date, continuing student enrollment for fall semester looks strong.

Mr. Johnson commented on his concerns for monitoring variable costs based on enrollment. Mr. Ganues replied that the variable costs are lab/course fees, which are about \$2.5 million per year. Mr. Ganues emphasized that the other divisions are as lean as they can be; and, if fall semester enrollment doesn't happen then College administration would have to review payroll items, computer replacements, etc. It was noted that other expense reductions, such as a higher vacancy factor or a corresponding decrease in adjunct faculty/faculty overload labor costs, would be subject to the fall course schedule. Mr. Ganues continued his review by noting the reductions in revenue, expenses and a projected 2.23 percent profit margin and a projected Senate Bill 6 score of 4.6 (due to net income and reserves). He noted a \$44 million in cash/investments and the unrestricted net position, which is projected to improve from FY 2020.

Mr. Johnson commented that his observations of the budget for FY 2021 is that it felt optimistic, and he asked if there might be any misalignment between revenue assumption and cost cutting? Mr. Johnson commented that it seemed that the budget for revenue projections assumes we will hit at the 97 percent targets, but then it seemed that we are being very aggressive on the cost side to right-size the expenses. In his opinion, it seems that if the College meets the student enrollment target, then the expenses will end up higher than what is in the budget. Mr. Johnson commented on not having a good feel for the direct and variable costs for increased student enrollment, and his concern was the budget may not be consistent on both the expense and revenue sides. Mr. Ganues replied that the College can do this budget with the expenses based on the enrollment projections; however, there would be a concern if we miss the fall enrollment projection then we would have to adjust the budget. With this proposed budget, the College can do all the teaching for the enrollment, as projected, with the expenses, as budgeted. Mr. Ganues confirmed there is no misalignment between revenue and expenses, unless there would be a significant fall enrollment decrease. The FY 2021 budget reflects a very lean College; however, it protects the intent to not cripple services to students. The reality is that the College relies heavily on State funding, which is integral to the financial structure of the College.

Mr. Ganues reviewed the financial walkthrough (page 5) with attention to the following areas:

- Revenue – Sales & Service – decrease of (\$250,000) from Bookstore commission, and he shared that the College is moving to an e-bookstore model in the summer, as the request for proposal process and contract review is completed.

- Revenue – Workforce – decrease of (\$610,000) revenue projected due to the disruption from the pandemic.
- Expense – Salaries/Benefits – decrease in expenses due to vacancy factor and reductions in the budget for student workers. Mr. Nagle asked about using adjunct faculty to prevent a repeat from the 2010-2012 financial recession period when the College was overstaffed. Denise Smith, Provost/Vice President, Academic Affairs, commented on the process of faculty retirements and Chairs/Deans increased advertising to build an adjunct faculty pool with the intent to align the ratio of adjuncts to full-time faculty.
- Other – Capital Appropriations – the projection from \$5.4 million was adjusted to \$3 million, so down by \$2.4 million. Have not heard any updates at the state level on capital appropriations; still hopeful that it will be addressed by November. This lag in time may impact the capital spend over the fiscal year. In response to Mr. Nagle, Mr. Ganues commented that if the College spends less capital appropriations then it will be a struggle to get to the net position bottom line, which will also impact the Senate Bill 6 score.

Capital Assets/Depreciation – Mr. Ganues commented that over the past year, the Controller has been reviewing how the College depreciates capital items. It has become evident that depreciation for building improvements at 20 years is not a long enough life when a total rehaul of a building is done. Mr. Ganues asked Katie Feher, Controller, to review the current process of depreciating capital items and to propose amending the length of the useful lives and the capitalized costs, as follows:

Table 1 – Proposal – Useful Life

Asset	Current Life	Proposed Life
Land Improvements	5 to 20 years	5 to 40 years
Buildings	40 years	No change
Building Improvements	10 to 20 years	10 to 40 years
Equipment	3 to 10 years	3 to 20 years

Table 2 – Proposal – Capitalized Costs

Asset	Capitalized Cost – Current	Capitalized Cost – Proposed
Land Improvements	\$50,000 or greater	No change
Buildings	\$50,000 or greater	No change
Building Improvements/Infrastructure	\$20,000 or greater	\$50,000 or greater
Equipment	\$5,000 or greater	No change

Ms. Feher commented on benchmarking with the other 22 Ohio public two-year colleges, and she noted that Owens has the lowest useful life at 20 years when compared to common practices. She provided the example of the construction in progress Dana Center project, and that College would only be able to depreciate the extensive renovations for 20 years, which is significantly lower than the expected life of the Dana Center. She also noted that the dollar amount threshold for building improvements and infrastructure do not coincide. Additionally, she reviewed the data with the auditor, who supported the proposed amendment to the accounting practices for better alignment with Ohio’s public community colleges. The auditor (Clark Schaefer Hackett) requested that the proposal be presented to the Board Finance Committee for formal approval and noted in the Finance Committee meeting minutes.

Discussion, included: benchmarking with Ohio two-year colleges through the publicly available financial information; Columbus State Community College provided an excellent model. In

response to Mr. Johnson, Mr. Ganues noted there is no state legislation on the accounting practice; however, Governmental Accounting Standards Board (GASB) dictates useful life and depreciation expense. The auditor recommended annually reviewing useful lives and depreciation amounts of capital assets. To implement the proposal, the Controller would extend the useful life so the depreciation amount will come down every year. Mr. Nagle commented that with respect to equipment, to keep the practice tight especially with how technology and equipment changes. Mr. Ganues confirmed that the Controller's Office staff will work with the manufacturers on the recommended useful lives for equipment, and he noted that in most cases, the likely life will be at 10 years; not the 20-year maximum.

**Mr. Johnson moved to amend the length of the useful lives and the capitalized costs with being cautious on the equipment, as presented, which was seconded by Mr. Nagle. Following a voice vote, the motion was carried.**

Deferred Maintenance – Mr. Ganues commented that the FY 2021 budget does not include a deferred maintenance plan, as originally discussed from prior Finance Committee meetings. Mr. Ganues requested to wait until he can see the progress of revenue for fall semester. He shared the following, Deferred Maintenance Summary.

Picture 1 – Deferred Maintenance Summary

	A	B	C	D
3	Priority	Amount		
4	1	493,000		
5	2	9,128,370		
6	3	12,907,068		
7	4	792,450		
8	<b>Total</b>	<b>23,320,888</b>		
9				
10	1 Bad	Major repair or replacement required to restore function. Unsafe to use or structural concern		
11	2 Poor	Significant repairs required. Excessive wear and tear visible. Obsolete. End of Service Life. System not fully functional as intended. Repair parts not easily obtainable. Does not meet all codes. Aesthetically unpleasant		
12	3 Fair	More minor repairs and some infrequent larger repairs required. System occasionally unable to function as intended. Aesthetically unpleasant.		
13	4 Good	Some minor repairs needed. System normally functions as intended.		
14				

Mr., Ganues recommended to begin addressing deferred maintenance to focus on the priority items 1 (bad condition) and 2 (poor condition) that require major repair/replacement; and of those priorities, excluding Health Technologies, Library and Audio-Visual Classroom Center, which would be part of future state capital bill requests, the estimated cost of priority 1 and 2 projects totaled to \$6.8 million over a two-year period. Mr. Ganues said he would like to have this ready to go with a plan and to wait until the September Finance Committee meeting to review with the financial statements/bottom line. Mr. Johnson commented on addressing the priorities as needed, especially with the life safety items that must be resolved.

In closing, Mr. Nagle commented on being pleased with the continuous improvement of the budget process.

**Mr. Johnson asked if the members of the Finance Committee were comfortable with the FY 2021 Budget, as presented, and he asked for a motion for the Treasurer to finalize and recommend the FY 2021 budget to the full Board of Trustees, June 2, which was moved by Mr. Nagle and seconded by Jason Johnson/Rita Russell. Following a voice vote, the motion was carried.**

## **APRIL FINANCIAL REPORT**

Mr. Ganues reviewed the financial walkthrough of the financial report for the period ending, April 30, 2020.

**Good of the Order** – President Robinson acknowledged the hard work of the entire team on the FY 2021 budget recommendation given the time of a 100-year pandemic. Mr. Johnson agreed that the presentation of the budget was well done with the details that were provided.

**Adjournment** – As there was no further business, Mr. Johnson declared the meeting adjourned at 12:40 p.m.

ATTEST

*Patricia M. Jezak*

Secretary to the Board of Trustees

*Approved 7-13-2020*