

**Massachusetts Board of Higher Education
Fiscal Affairs and Administrative Policy Committee Meeting
January 26, 2021**

The January 26, 2021 meeting of the Fiscal Affairs and Administrative Policy (FAAP) Committee was held in remotely at 1pm via a webcast pursuant to Massachusetts COVID-19 guidelines.

Committee Members Present:	Board Chair Chris Gabrieli; JD LaRock, FAAP Committee Chair; Tom Moreau (designee for EOE Secretary); Veronica Conforme; Paul Mattera; Michael O'Brien; Paul Toner; and Commissioner Carlos Santiago (ex-officio, non-voting)
Other BHE Members Present:	Judy Pagliuca; Anne Christensen; Kush Patel, UMass Non-Voting Student Segmental Advisor (non-voting)
Committee Member Absent:	None
Department Staff Present:	Thomas Simard; Constantia Papanikolaou; Elena Quiroz-Livanis; Joe Wallerstein
Special Guests:	Edward Adelman, Executive Director, Massachusetts State College Building Authority; Haven Ladd, EY Parthenon; Courtney Selden, EY Parthenon

I. CALL TO ORDER

Board Chair Chris Gabrieli called the meeting to order at 1:04 p.m.

II. ACCEPTANCE OF MINUTES

On a motion duly made and seconded, the minutes from the January 28, 2020 meeting of the Fiscal Affairs and Administrative Policy (FAAP) committee were approved unanimously by all committee members present.

III. COMMITTEE CHAIR'S REMARKS

List of Documents Used

Massachusetts Campus Enrollment Trend Documents, PowerPoint Slides, Prepared by BHE Member J.D. LaRock

BHE Chair Gabrieli thanked the Committee for convening under the current circumstances stating that their presence reflected their commitment to public service. He welcomed those BHE members who were not officially members of the FAAP committee, noting that all BHE members are welcome to attend any committee meeting. He then turned the meeting's proceeding over to FAAP Committee Chair J.D. LaRock.

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 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. Commissioner 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

List of Documents Used

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.

Following the conclusion of discussion Committee Chair LaRock called for a vote on FAAP 21-01. On a motion duly made and seconded, the following motion was approved by unanimously by the FAAP Committee members present.

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

Voted: The Board of Higher Education hereby approves the attached Fiscal Year 2022 Schedule of Proposed Rents and Operating Budget for the Authority and State University Residence Halls, effective July 1, 2021, provided that any increase in the rent schedule shall be subject to the approval of the Board of Higher Education

Authority: Massachusetts General Laws Chapter 73 App., Section 1-9 as amended and the *Contract for Financial Assistance, Management and Services*, dated February 1, 2003, made between the Commonwealth of Massachusetts, acting by and through the Board of Higher Education and the Massachusetts State College Building Authority.

Contact: Thomas Simard, Deputy Commissioner of Administration & Finance
Fiscal and Administrative Policy

**B. FAAP 21-02 APPROVAL OF MASSACHUSETTS STATE COLLEGE BUILDING
AUTHORITY REFUNDING REVENUE BONDS**

List of Documents Used
FAAP Motion 21-02

Discussion of FAAP 21-01 concluded at 2:58. Committee Chair LaRock asked Mr. Adelman if the presentation on FAAP 21-01 had covered the topic of FAAP 21-02. Mr. Adelman affirmed that the MSBCA had presented its material regarding the repayment schedule for refunded revenue bonds on FAAP 21-02 in the preceding discussion of FAAP 21-01. Mr. Adelman added that language of FAAP 21-02 was virtually identical to the language from the prior motion approving MSCBA's bond refunding authority. Mr. Edelman noted that the presentation materials included the annual MSCBA budget, as well as the schedule of rents, and a discussion of the recent and planned refunding bond issues and debt restructurings.

Committee Member LaRock called for a vote on FAAP 21-02. On a motion duly made and seconded, the following motion was approved by unanimously by the FAAP Committee members present.

**FAAP 21-02 APPROVAL OF MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
REFUNDING REVENUE BONDS**

Voted: The Massachusetts State College Building Authority is hereby authorized to issue refunding bonds for the purpose of restructuring the Authority's debt service payment obligations in a manner that provides fiscal relief to the State Universities in fiscal year 2021, fiscal year 2022 and/or fiscal year 2023 and satisfies the other requirements of the vote of the Authority on January 20, 2021 authorizing such refunding bonds; provided further that the Commissioner is hereby authorized and directed, in the name and on behalf of the Board of Higher Education, to approve in writing the issuance by said Authority of bonds for such refunding purpose.

Authority: Massachusetts General Laws Chapter 73 App., Section 1-9 as amended and the *Contract for Financial Assistance, Management and Services*, dated February 1, 2003, made between the Commonwealth of Massachusetts, acting by and through the Board of Higher Education and the Massachusetts State College Building Authority.

Contact: Thomas Simard, Deputy Commissioner of Administration & Finance
Fiscal and Administrative Policy

VIII. ADJOURNMENT

Prior to calling for a motion to adjourn, Committee Chair LaRock expressed his interest to engage the members of the FAAP Committee in a dialogue at a future meeting about their priorities for the upcoming year, including revisiting the financial metrics, financial aid, tuition, and other relevant business of the FAAP committee. Once called, the motion to adjourn, which was seconded, was approved unanimously. The meeting adjourned at 3:00 p.m.