Central State University

Wilberforce, Ohio

Senate Bill - 6
3-Year Recovery Plan
(FY 2016 – FY 2018)

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Contents

Executive Summary

Since 2012, under the current administration, Central State University began transforming itself into an institution with enhanced effective and efficient institutional operations. This transformation process is identified as one of the Institution's Six *Compelling Priorities* which drives the 2015-2020 Strategic Plan. One of the most significant aspects of institutional efficiency is achieving and sustaining financial stability. For the last three years, it has been evident that Central State University had to "right" the course in obtaining financial stability. Upon realizing an imbalance of projected revenues to daily expenditures, the University immediately began the process of cutting costs. Cost-cutting measures were discussed in several Town Hall meetings, where the CSU community could offer comments, suggestions and ask questions regarding the impending changes. We sought inputs from faculty, staff, students and alumni, and realigned several practices and policies to support efforts of financial balance and stabilization. Major changes focused on enrollment growth strategies that better aligned to the State Share of Instruction (SSI) performance matrixs (course completion, retention and graduation).

Although many effective changes have occurred to stabilize the University's finances, through June 30, 2014 our Senate Bill 6 Composite scores for two consecutive years (2013 & 2014) were below 1.75, which placed the University on *Fiscal Watch*. Since FY 2012, Central State University has been meeting with Ohio's Board of Regents ("BORs") and the Ohio Office of Budget and Management ("OBM") to share strategies taken by the entire campus community to improve our financial condition. As a result of many early changes, the University is now beginning to see positive outcomes resulting from cost-savings measures. Our conservative projections indicate a Senate Bill 6 Ratio of 1.8 for FY 2015. Although, this is an (80%) improvement from FY 2014's 1.0 composite score, it is not a sufficient ratio to remove us from the designation of Fiscal Watch. With the many changes in fiscal operations that have now been institutionalized by the University, we are confident that we are on our way to obtaining financial stability and creating a culture of efficient and effective fiscal operations.

Background

The Fiscal Watch formula and designation was created pursuant to Senate Bill 6 and is promulgated at Ohio Administrative Code § 126:3-1-01 (the "Senate Bill 6 Ratio") to alert the BORs of fiscal concerns that affect an institution's financial stability or solvency. The overarching goals of the Senate Bill 6 Ratio are to provide financial accountability and an early warning system about a college or university that might be heading into financial difficulty.

Fiscal Watch designation is based on a composite set of ratios, which are designed to measure financial viability. The commonly known Senate Bill 6 ratios are:

- **Primary Reserve** – Short-term ability to cover expenses, and weighted 50%;
- **Viability** – Long-term ability to cover debt (bonds, loan, etc.), and weighted 30%;

- **Net Income** – Capital expenditures in the physical plant growth, and weighted 20%.

The composite score rankings run from 0 to 5. Any college with composite scores of 1.75 or lower for two consecutive years will be placed on Fiscal Watch.

- In FY 2012, Central State University's composite score was 3.6;
- In FY 2013, our composite score was 1.3; and
- In FY 2014, our composite score was 1.0.

Under Fiscal Watch, the University is required to do the following:

- Increase reporting to the State of Ohio (monthly versus quarterly); and
- Provide a 3-year recovery plan to the State.

As soon as the University attains a composite score of 2.4 or above, the BORs can adopt a resolution for Central State University to have the Fiscal Watch designation removed. [Central State University will be on Fiscal Watch until the Board of Regents receives the official state independent audit, and calculates the Senate Bill 6 ratios. The ratios will be published the first quarter of the following calendar year.]

Primary Contributors for Central State University's Fiscal Watch Declaration

- **Student Enrollment** - The recent changes to the Federal Pell, Parents Plus and OCOG programs have made affordability more difficult for first generation students who generally have very little family contribution income. This segment of first-generation students makes up 75% of CSU's student population, and 88% of the student body are receiving Federal Pell. Little or no income contributions from families affect CSU's enrollment. Students' tuition and fees make up approximately 47% of the University's operational revenues. State Supported Instruction and CSU Supplement adds 46% of the remaining revenue sources, for a total of 93%. When federal or state financial support is diminished, so does enrollment. In addition, the University shifted its focus to outcome performance measures, which altered the student profile toward a more college-ready student who was more likely to complete college requirements in a shorter period of time with less debt, since entering enrollment is no longer a measure for SSI funding.
- **Debt Liability** - Requirements by the State of Ohio to comply with HB-251, Ohio Energy Conservation Initiative increased the debt liability to the University.
- **Spending Growth** – Personnel, scholarships, and program design costs resulting from initiatives, to grow unrealistic enrollment count to 6,000 students (2006 Speed to Scale).
- **Miscellaneous Revenue Declines** - Students' tuition and fees, State Share of Instruction distributions, and CSU Supplement generates 93% of the Institution's revenue stream. A Passive break-even philosophy and practices were normal expectations that did very little to induce greater end-of-year profit margins.

- **<u>Capital Appropriation</u>** – Although annual capital spending contributes <u>20%</u> (Net Income Ratio) of the overall composite score weight, little or no appropriated dollars for construction projects over the past 15 years has resulted in a compelling negative effect on CSU's financial performance. As a consequence of insufficient capital appropriation allocated from Ohio's 6-Year Capital Improvement Process, many of Central State University's basic physical plant infrastructures have deteriorated (e.g., leaking building roofs, inoperable HVAC systems, outdated fire/emergency alert devices, street potholes, decaying curbs, storm drains, water main breaks, etc.). When capital allocations are not provided to the University by the State, the Institution, in turn, must exhaust "ready reserve" dollars to sustain the campus' operational infrastructures.

  In addition, the campus' physical plant appearance also affects students' behavior on enrollment and retention, which in turn, directly impacts future revenue growth opportunities. With fewer financial options to take advantage of, the University had to use reserve dollars for must-pay emergencies that repair or restore the deteriorating infrastructures (buildings, roads, landscaping, signage and mechanical system repairs).

Actions Taken Prior to Fiscal Watch

Central State University was making significant progress to improve its financial solvency. For the first time in six years, FY 2015 projected annual operating spending has been decreased to $37.8 million, resulting from intrusive conservative spending and intense fiscal oversight. Furthermore, the University has received three years of unqualified audit reviews by independent accounting firms chosen by the BORs.

Other actions since FY 2012:

- Engaged involuntary and mandated personnel furloughs;
- Reduced workforce by 103 personnel or 26%;
- Applied salary reductions where possible;
- Launched the "Silent Phase" of a capital fundraising campaign;
- Reduced operating spending to essential mission-driven priorities;
- Transferred to commercial businesses and vendors to reduce daily support costs;
- Realigned student scholarship criteria to match awards to academic performance;
- Recruited students who are more college-prepared and are able to adapt to the rigor of a higher education curriculum;
- Entered into a maintenance service agreement with a reputable firm to reduce deferred maintenance cost (i.e., preventative and predictive maintenance)
- Mandated eligible students (e.g., freshmen, sophomores, low GPAs) to reside in campus residential halls, which will reinforce SSI academic performance variables.

Future Preventive Actions and Estimation of Time for Recovery

Elevate and Sustain Enrollment Count at or above 2,100 **(Implementation: FY 2015 - continuous)**

- Active recruitment of college-ready students over the next four years who are able to meet Ohio's college admissions and course completion requirements, which will reduce debt and their time to an academic degree.
- Develop "seamless" articulation agreements with community colleges that facilitate enrollment for transfer students.
- Focus recruitment efforts on Ohio-based students who are interested in Science, Technology, Engineering, Agriculture, and Mathematics ("STEAM") and who graduate from high schools within the state.
- Engage opportunities for recruitment of students from international governments that provide college financing.
- Increase the number of on-line courses, focused on general education and workforce development programs, to reach a wider group of students (high school, non-traditional, etc.).
- Continue focus on advisement practices, supplementary teaching and learning, and prescriptive programs of study to enhance retention and college completion.

Seek operational opportunities that offer immediate return on investment (ROI) (Implementation: FY 2014 - continuous)

- HB-251/HB-7 Energy conservation initiatives are providing savings of over $1.0 million annually.
- Settle the HBCU loan to purchase Fox and John residence halls from the developer. Ownership allows Institution to retain over $1.0 million annually in residential fees.
- Explore and launch new contractual relationships with other Ohio public institutions to provide quality services with a greater return on investment (ROI).

Spend Resources on Mission Critical Needs **(Implementation: FY 2015 - continuous)**

- Continue to monitor spending in alignment with critical needs of the University and the University's Strategic Plan;
- Spend funds strategically to ensure discretionary expenditures are focused primarily on recruiting, teaching, retaining, and graduating Ohio's students;
- Seek efficiency by competitively bidding and choosing commercial vendors who will provide evidence of return on investment and institute cost savings based services that drive efficiency, sustainability and dollar savings to the University.
- Accrue a minimum year-end/ready reserve fund balance or net expendable asset of $5.0 million (est. FY 2017)

Advocate for adequate capital improvement dollars **(Implementation: FY 2015 - continuous)**

- The 6-Year Capital Improvement Project Commission must allot adequate funds to address the multitude of physical plant deficiencies. In addition, the capital investments will also help the Institution attract college ready students, and acquire the maximum points (5) in the net income ratio calculation.
- Establish a more permanent business relationship with the City of Xenia and Xenia Township to leverage public services (e.g., water surcharge, sewer processing, emergency management services, etc.) and financial savings to the University.

Expected results that will lead to improved SB-6 Ratios

The University is on the right "track" to improve its financial stability; what is needed is to institutionalize best practices in order to remain on course. The University's financial position is challenged primarily because of the net expendable asset position. We will improve this situation by increasing revenue based on enrollment and continuing our aggressive efforts of controlling costs. This strategy will allow CSU to continue to strengthen its bottom line. We have significant capacity in many areas on campus and we are addressing all areas to gain continued efficiencies and savings.

The University continues to examine policies and practices for currency, applicability, and alignment with state mandates and protocols. When such policies are no longer useful or effective for sustaining the new financial applications, they are replaced with institutional policies that will have long-term positive impacts on financial efficiency.

Results from the implementation strategies are already indicating positive trends that will increase our Senate Bill 6 Ratio. Comparison projections to FY 2014 indicate an increase in new freshmen enrollment of targeted selected students for FY 2015. Furthermore, as an 1890 Land-Grant institution, the University will be in a great position to launch new academic programs and support new research innovations that will serve as impactful recruitment tools.

Finally, the University is embarking on a five-year capital campaign, which could favorably boost the University budget of $3.0 million per year in institutional financial aid. A successful capital campaign will be a tremendous dollar infusion to the university's budget and allow the Institution to accrue a robust and sustainable end-of-year ready reserve fund balance.

Contingency Plans

The University continues to look for new areas of growth and efficiency in its operations. We have reduced our administrative staffing and faculty staffing over the last three years. In addition, we have secured some new partnerships and outsourced some key business entities to reduce our expenses. We are also aggressively investigating new areas and business models to grow and strengthen cash reserves.

If any plans or goals are not achieved as anticipated, we will immediately implement our cost-cutting measures to get back on track to elevate the financial stability. Our conservative approach to year 1 of the recovery plan, the favorable results of new activities such as Land-Grant funding, and our campus improvement activities will support long term and improved operational strategies.

Uncontrolled Circumstances

The major circumstances that could hamper our recovery are as follows:

- A mandated freeze on tuition and fee increases;
- Federal Aid changes or restrictions for continuing student population;
- Capital appropriation reductions that will ultimately diminish "ready reserve" cash balances to remedy physical plant emergencies.

A tuition and fee freeze would severely hamper our ability to grow our revenue. Central State University has the lowest tuition of all 4-year public institutions in Ohio. Our anticipated tuition increase will aid our efforts to keep pace with inflation and increasing cost (salaries, medical benefits, utilities, services, etc.). Enrollment is a very competitive challenge for many small colleges in the state. It is even more challenging for CSU because many of our students, who can deal with the rigor of Higher Education, do not have adequate financial resources to attend the University and depend on Federal, State, and/or institutional aid. Adversarial changes in Federal Pell Grant, student loan programs (e.g., Parent Plus), and Ohio College Opportunity Grant (OCOG) have significantly hampered our ability to recruit and retain many of our admitted students.

And finally, our infrastructure is in need of funding to finance urgent repairs and upgrades to the physical plant. The recent long term/low interest debt we acquired to update our energy consumption systems has significantly lowered our utility costs. This investment will positively enhanced our ability to attract, enroll, retain and graduate students, along with enhancing their quality of life and experiences on campus.

WHAT ARE THE FINANCIAL FORECAST, ASSUMPTIONS AND METHODOLOGY THAT WILL CORRECT FISCAL WATCH CONDITIONS?

Financial Forecast

The three-year financial forecast is primarily driven by four important variables; 1) enrollment growth, 2) state funding predictability, 3) revenue expansion, and 4) spending controls. Each area has many variables that affect the probability of meeting the profit margin targets we have forecasted in this recovery plan. We have taken a very conservative approach to minimize the impact if we miss any of these projections. These four factors are critical to CSU emerging from Fiscal Watch during the three-year recovery period. The following assumptions are the basis for the financial forecast:

Revenue Assumptions

- Fall Enrollment Targets: FY 2016/1,800, FY 2017/2,000, FY 2018/2,100
- Student FTE's (94%) of total headcount each year
- In-state/Out-of-state ratio: 60% in-state and 40% out-of-state
- On-campus residency is 60% of headcount
- Tuition Increase: FY 2016 - 0%, FY 2017 - 0%, FY 2018 - 2%
- Room and Board increase: 3% annually
- State Support: FY 2016 - $17.5M, FY 2017 - $16.8M, FY 2018 - $16.3M
- Increase support from Capital Campaign/Foundation monetary gifts

Expense Assumptions

- Strategic personnel hires that will enhance enrollment growth
- Reduction in Bad Debt expense: 10% per year
- Reductions in institutional aid from operating budgets
- Inflation impact: 3% offset by efficiency savings of 3% per year
- Benefit rate: 39% of salaries
- State capital spending: $15 million annually
- Union contractual increases: FY 2016 - 0.5%, FY 2017 - 0.5%, FY 2018 - 1.0%
- 5% contingency set-aside to build cash reserves

Methodology

The three-year financial forecast was based on FY 2015 actual expense and revenue trends. This forecast is very conservative with inflation factors, and spending controls, and contingencies built in the budget. The assumptions in the revenue area were based on historical trends and commitments/contracts already in existence. Enrollment growth is not definite however the University has committed significant resources to securing the level of enrollment reflected in these projections. The University is exploring new revenue streams (office space lease, convenience store, etc.) and cost control opportunities, but those initiatives have not been included in these projections. We expect these new initiatives (i.e., 1890 Land Grant, Wright State and City of Xenia partnerships, etc.) will yield more savings and financial growth for the institution. The institution will evaluate all collaborative opportunities and when acquired, we will update our financial pro forma, accordingly.

Closing Statement

Central State University serves Ohio by educating college ready students who are mostly (93%) Pell Grant eligible. Decreases in state and federal financial aid funding, along with changes in federal loan policy make it even more difficult for many Ohio students to access higher education. When coupled with Ohio's change in state support for public institutions, Ohio's most economically challenged populations are being placed in a perfect storm of conflicting policy decisions.

Despite these students' affordability challenges, we continue to believe Central State University will emerge from Fiscal Watch in FY 2017 at the latest. Financial modeling at our current trends indicates we need to generate a minimum net expendable asset value of $5.7 million. At our current revenue projections, we would need two years to accumulate that level of unrestricted reserves. We feel the projections presented in this recovery plan are very conservative and achievable. Although, there are economic and political headwinds, CSU is postured to respond to these challenges. However, it is our hope that we will emerge from Fiscal Watch sooner if our enrollment meets or exceeds our projections and the capital campaign meets its goals.

Financial Pro Forma

CENTRAL STATE UNIVERSITY

FY 2016-2018 Recovery Plan Projections

	Composite Ratio Below 1.7		Fiscal Watch Year	Recovery Period		
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017 ***	**FY 2018**
Enrollment (Fall)	**2,152**	**2,068**	**1,751**	**1,800**	**2,000**	**2,100**
Revenue Source	**Actuals**	**Actuals**	**Projection**	**Forecast**	**Forecast**	**Forecast**
Instruction	$ 7,671,692	$ 7,111,656	$ 6,561,116	$ 7,261,173	$ 7,962,200	$ 8,478,967
Non-Res Surcharge	$ 5,774,808	$ 3,200,162	$ 2,261,400	$ 2,498,260	$ 2,717,710	$ 2,883,984
General Fees	$ 4,908,476	$ 4,975,977	$ 3,588,306	$ 3,690,924	$ 4,105,183	$ 4,398,565
State Subsidy	$ 6,277,310	$ 6,238,409	$ 7,068,138	$ 6,760,343	$ 6,092,838	$ 5,531,395
State Supplement	$ 10,928,468	$ 11,063,486	$ 11,063,468	$ 11,063,468	$ 11,063,468	$ 11,063,468
Housing	$ 2,274,548	$ 1,501,795	$ 1,695,965	$ 1,949,967	$ 2,486,504	$ 2,809,868
Dining	$ 4,690,976	$ 4,679,719	$ 4,316,459	$ 4,531,305	$ 4,993,062	$ 5,324,418
Miscellaneous	$ 1,154,594	$ 1,076,114	$ 709,479	$ 600,000	$ 600,000	$ 600,000
Indirect Cost Recovery	$ 614,046	$ 487,151	$ 293,817	$ 300,000	$ 300,000	$ 300,000
Bookstore	$ 1,293,002	$ 1,150,650	$ 766,715	$ 945,000	$ 1,041,863	$ 1,093,956
Other State Funding	$ 8,875	$ 40,169	$ 315	$ 35,000	$ 35,000	$ 35,000
Total	**$ 45,596,795**	**$ 41,525,288**	**$ 38,325,178**	**$ 39,635,440**	**$ 41,397,827**	**$ 42,519,621**
Total Revenue	$ 45,596,795	$ 41,525,288	$ 38,325,178	$ 39,635,440	$ 42,247,827	$ 42,519,621
Operating Expenditures	$ 48,546,028	$ 41,969,618	$ 37,826,233	$ 38,387,995	$ 38,728,970	$ 40,976,323
Net Profit	**$ (2,949,233)**	**$ (444,330)**	**$ 498,945**	**$ 1,247,445**	**$ 3,518,857**	**$ 1,543,298**
Expendable Net Assets-Beg.	$ 8,280,992	$ 3,872,731	$ 1,061,152	$ 1,000,000	$ 2,247,445	$ 5,766,302
Expendable Net Assets-End	$ 3,872,731	$ 1,061,152	$ 1,000,000	$ 2,247,445	$ 5,766,302	$ 7,309,600
SB6 Composite Rate	**1.3**	**1.0**	**1.8**	**1.8**	**2.8 ***	**2.8**

*** Recovery Strategy to Achieve or Exceed 2.4 Composite Score in FY 2017**

- Restore State Share of Instructions lost from the 0% tuition freeze legislation
- Garner capital campaign/foundation monetary gifts infusion
- Identify and implement new operational efficiencies/cost reduction initiatives
- Advocate for adequate capital appropriation to remedy physical plant deficiencies