May 14, 2018

Faculty Regent Report to Faculty Senate

Dear Faculty Senate Colleagues,

The Board or Regents (BOR) met last week, Thursday, May 10th at 10am. Prior to the full meeting of the BOR, the Audit Committee met to appoint an auditing firm for next academic year (AY19) and to hear a report on ongoing internal audits. Although originally scheduled as a work session, the full BOR meeting was designated a special called meeting in advance in order for the BOR to approve ten faculty phased retirement contracts. The contracts were approved; the BOR took no further actions. The bulk of the work session was taken up by two reports to the BOR, the report of the facilities taskforce presented by its convener, Mr. Kim Oatman, and the healthcare taskforce report presented by its chair, Mr. Harold Nally.

Audit Committee

The Audit Committee convened at 9am and unanimously approved the extension of MSU's auditing services contract with Dean Dorten Allen Ford, PLLC, of Lexington. Our original contract with the firm ended June 30th, 2016, with an option to renew for four additional one year periods. As there is general satisfaction with their work, the committee opted to renew for fiscal year 2017-18 (FY18). The fee for a minimum scope audit for FY18 will not exceed $90,000.

In the discussion about MSU's processes and controls, Dr. Morgan noted that he had approved a new UAR as required by the revised bylaws passed by the BOR in March. The UAR requires the president to approve purchase orders and change orders exceeding $10,000 (as well as several other kinds of outlay). This new internal policy will help avoid the kind of unexpected costs and overruns (including this year's $2.2 million ADUC overrun) that have contributed to this year's budget pickle.

Dr. Morgan also noted that it appears MSU has not recently "tested" our internal processes "globally" against best practices industry-wide, adding that now would be a good time with SACS reaccreditation on the horizon. The idea of hiring a different auditing firm with experience in the higher education sector to look at our processes and procedures met with enthusiastic approval from the BOR. The idea would be to revise our policies and processes in light of the analysis. The proposal, which would *not* be a formal audit, is not expected to be terribly expensive. Dr. Morgan agreed to have an RPF drawn up in the short term and volunteered to report back to the full BOR in June.

Mr. Joe Hunsucker presented a report on the current status of his recently completed and ongoing internal audits, which includes formal reviews of the NCAA Student Assistant Fund, Purchase Card transactions across 15 units, and Police Department evidence handing procedures. The only concerns raised by Mr. Hunsucker's internal audit came to light after an assessment of 4,000 P-card transactions. Mr. Hunsucker noted that "images of receipts were not always uploaded and other times were not uploaded by the cardholder in a timely manner." He also noted that when personnel are assigned to a new department, there has periodically been a delay in the reassigning the default unit code on the employee's card. In both cases, errors are relatively easy to spot and correct. But the institution is working on improving compliance rates on receipt uploads/categorization, and to develop a process to ensure P-cards are reassigned to the new departments promptly when employees move between units on campus.

<u>Full BOR meeting</u>

Chair Walker convened the full meeting of the BOR at 10am. Dr. Morgan began the meeting by continuing his practice of recognizing faculty to the BOR, this time noting the outstanding contributions of Dr. Natasha Davis, associate professor of dance. The BOR proceeded to take action on one item, the approval of ten phased retirement contracts for MSU faculty. Dr. Morgan noted that the high participation rate in the program, taken together with several ordinary retirements, helped the institution to close the budget deficit for AY19 with a modest number of layoffs in comparison to other Kentucky institutions.

The BOR proceeded to meet in closed session to discuss matters relating to the future acquisition or sale of real property pursuant to KRS 61.810(1)(b). After a brief discussion limited to the stated purpose of the closed session, the BOR reconvened to hear and discuss two reports.

Mr. Nally presented the recommendations of the healthcare taskforce. The taskforce was charged with containing the institution's healthcare costs and realizing a $1.5 million reduction in expenses for the 2019 insurance plan year. (Note that because employee benefits run on a calendar year as opposed to a July-June fiscal year, the recommendations will only realize 50% of the proposed savings for FY19. The $1.5 million reduction in expenses is *on top of* the ~$325,000 realized by ending institutional-sponsored dental insurance.)

It is also important to recognize that *healthcare costs increased $1.5 million this fiscal year*, with the institution bearing *the entirety of the cost*. This drove the institution/employee cost share ratio to 81/19, which is an unusually generous level of employer support. The institution is attempting to return us to last year's outlay now that the pension landscape has settled some.

The taskforce identified seven cost containment strategies to this end. They were assisted in modeling the effects of the strategies by Sibson Consulting, which employed 2017 claims data to conduct their analysis.

- Suspend HRA contributions and reduce HAS contributions by 50%.
- Suspend Wellness program incentives.
- Increase tobacco surcharge to $200.
- Increase spousal surcharge to $150.
- Increase employee contributions by 26% in aggregate (varies according to plan).
- Adjust cost share ratio to 70/30 from the current 81/19 (MSU/employee).
- Change benefit plan design (increasing deductibles, out of pocket maximums, copays across plans).

The taskforce concluded its presentation by recommending the following priority "enhancements" as MSU's fiscal situation permits.

- Reduce premiums and move to a cost share ratio of 75/25.
- Restore HRA and HAS contributions to 2018 level.
- Focus on plan enrichment.
- Restore Wellness incentives program.

Several members of the BOR expressed significant concerns about the plan given the depth of the benefits cut. I voiced the following concerns.

- Benefits are an important part of faculty compensation. As such, the proposal contemplates an effective cut in faculty compensation. MSU already lags behind our IPEDS peers and in-state competitors in terms of total faculty compensation. Cuts to faculty compensation will make it more difficult to retain and recruit quality faculty, which risks further eroding morale and therefore student success and MSU's performance on several performance funding metrics. As I noted in the meeting, cutting $1.5-$1.6 million from a faculty/staff health benefit enjoyed by approximately 814 employees amounts to an average reduction in compensation of almost $2,000 per benefits-eligible employee.

- The model the committee employed does not appear to take into account the effect on claims that ending the HAS and Wellness incentives may have. As both programs are designed to reduce claims—by promoting a healthier risk pool and incentivizing responsible healthcare consumption—the static model employed by the committee may underestimate the costs of cutting certain benefits.

Dr. Morgan expressed real regret that changing our health plans had become necessary in his estimation. In response to BOR concerns, he noted that MSU is trying to "outsource slowly," and that to avoid trimming employee benefits along the lines proposed would require outsourcing in much higher numbers. He noted that MSU has cut $11 million from the budget for FY19 while avoiding the kind of reduction in force headlines seen at other in-state institutions. (I would add that the impact on instruction/academic affairs has been less significant than in each of the last two years, in which the institution cut a smaller proportion of its overall budget though with greater detriment to our core academic mission.) Having said this, Dr. Morgan acknowledged that there's a "philosophic discussion" to be had here—on whether to "share the pain" or cut deeply in specific areas amenable to outsourcing—a discussion the BOR will have to continue (on the benefits question and beyond) in June and in coming fiscal years.

I know faculty will have strong opinions on the healthcare taskforce recommendation and general benefits/compensation issue. As always, I invite you to contact me with questions and comments; this question is particularly difficult.

Following the healthcare taskforce report, Mr. Kim Oatman presented the facilities taskforce recommendations to the BOR. After a thorough review of the physical state of, and cost to run (maintenance/utilities/custodian) campus facilities, the taskforce identified the following options as cost-savings measures.

Phase 1 Options

- Laughlin – move remaining Health & Kinesiology out / lease building to community (target date: September, 2018).
- Wetherby – move Volleyball into AAC, which requires modest renovation (target date: Winter, 2018-19).
- Butler – raze building (target date: Summer, 2018.

Future Phase Options

- Move Registrar to Enrollment Services Building.
- Move Foundation to Enrollment Services Building.
- Move English Department to Breckinridge.
- Consolidate Engineering & Information Systems into Bert Combs Bldg.
- Relocate other programs from Lloyd Cassidy in preparation for possible future capital renovation project.
- Evaluate Third Street Eats.

Including a summer energy savings initiative, the Phase 1 options are expected to save almost $500,000. However, the cost of moving the affected units/programs will run to about $400,000 in one-time costs, including an approximately $250,000 modification to the AAC to make it possible for Volleyball to practice in the unfinished facility that was formerly the AAC pool. Future phase options were presented as conceptually desirable in the abstract, but as requiring further study to ensure practicality/ successful implementation.

The BOR also heard updates on a few other ongoing projects. ADUC is expected to be complete at the beginning of October, though some offices will begin moving into the original section of the building over the summer. The cost of a full repair of the Library façade has been estimated at $7 million. Given the prohibitive nature of the repair cost, Facilities is looking at barrier options that would fit into the building aesthetic, as well as at the possibility of relocating the main entrance to the newer part of the building.

Last week's BOR meeting generated a small amount of publicity. For those who have not seen the articles in the local press, they can be found here:

http://wmky.org/post/msu-health-plan-recommendations

http://www.themoreheadnews.com/news/msu-insurance-costs-could-rise/article_267c16d8-57b4-11e8-ad81-1fa7e7250c1d.html

http://www.themoreheadnews.com/news/task-force-proposes-additional-razing/article_22d6298a-57b7-11e8-b813-236bd6b876eb.html

The meeting concluded with a formal recognition of Mr. Paul Goodpaster's considerable service to the BOR and institution generally. Mr. Goodpaster served for four years as chair during a particularly tumultuous time for MSU and for higher education in Kentucky, and has served two full six-year terms. As Mr. Goodpaster is not eligible for reappointment, the Governor is expected to name a new member to MSU's BOR this summer.

Please let me know if you have any questions/comments about this report, last week's meeting, or other issues facing the institution.

Sincerely,

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