WORCESTER STATE UNIVERSITY

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NOTICE

A MEETING OF THE FINANCE AND FACILITIES COMMITTEE OF THE WORCESTER STATE UNIVERSITY BOARD OF TRUSTEES WILL BE HELD ON THURSDAY, FEBRUARY 16, 2017 AT 3:00 P.M. IN THE MULTI-PURPOSE ROOM OF SHEEHAN HALL.

1. CALL TO ORDER
2. APPROVAL OF MINUTES – October 18, 2016
3. RICKES SPACE STUDY PRESENTATION
4. BUDGET AMENDMENT
5. DEBT MANAGEMENT POLICY – FY 2016 Financial Statement Review
6. FINANCIAL RATIO TREND ANALYSIS – Fiscal Years 2012 through 2016
7. OTHER BUSINESS
8. ADJOURNMENT

Judith St. Amand
Judith St. Amand
February 8, 2017

All trustees are welcome at any sub-committee meeting

F & F VOTES

Upon a motion made and seconded, it was

VOTED: **to approve the minutes of October 18, 2016 as submitted.**

Upon a motion made and seconded, it was

VOTED: **ACTION ON RICKES ASSOCIATES PRESENTATION**

Upon a motion made and seconded, it was

VOTED: **to accept and recommend approval of the FY2017 Budget Amendment as presented.**

Upon a motion made and seconded, it was

VOTED: **to accept and recommend approval of the Debt Management Policy as presented.**

Upon a motion made and seconded, it was

VOTED: **to accept and recommend approval of the Financial Ratio Trend Analysis – Fiscal Years 2012 through 2016 as presented.**

Upon a motion made and seconded, it was

VOTED: **to adjourn the meeting at**

WORCESTER STATE UNIVERSITY
BOARD OF TRUSTEES

FINANCE & FACILITIES COMMITTEE

October 18, 2016

PRESENT: Trustee Craig Blais, Chair
Trustee Aleta Fazzone
Trustee Stephen Madaus
Trustee Shirley Steele
Trustee George Albro, Ex-Officio Voting Member
Trustee Maryanne Hammond, Non-Voting Member
Trustee Karen LaFond, Non-Voting Member
Trustee Corey Laite, Non-Voting Member
President Barry Maloney, Ex-Officio Non-Voting Member
Ms. Judith St. Amand, Assistant Secretary
Ms. Nikki Kapurch, Special Assistant to the President

ABSENT: Trustee Marina Taylor

The provisions of General Laws, Chapter 30A having been complied with, and a quorum present, a meeting of the Finance & Facilities Committee of the Worcester State University Board of Trustees was held on Tuesday, October 18, 2016, in the Multi-Purpose Room of Sheehan Hall. Chairman Blais called the meeting to order at 4:12 p.m.

FY 2016 DRAFT AUDIT REPORT

Chairman Blais reported that he had reviewed the draft report at length with the administration and members of the auditing firm, Bollus Lynch, LLP. The draft document (10-14-16) was sent to all trustees prior to this meeting and the members of the committee will now thoroughly look at and have an opportunity to question representatives from Bollus Lynch:

- VP Kathy Eichelroth was joined by Jeff Swanberg and Jim Johnston from Bollus Lynch, LLP to summarize the findings of the FY 2016 Audit Report, including the pension obligation adjustments
- Chairman Blais noted for the Committee that a final report was not available at the time of distributing the packet of materials on-line and the report represents the results of operations for the year ended June 30, 2016, prior to the posting of the FY 2016 Commonwealth of Massachusetts pension obligation as required by the Government Accounting Standard Board Bulletin #68
- A revised *Draft* (10-18-16) was distributed at the meeting with the pension related figures and a final document will be produced once approved and adopted by the full Board
- The DRAFT document distributed contains the pension adjustments needed to be taken into account according to *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*
- The audit firm provided a clean opinion and reported that the financial statements presented fairly, in all material respects, the financial position of Worcester State University and Worcester State Foundation, Inc., its discretely presented component unit, as of June 30, 2016 and 2015
- There were no findings and management cooperated fully in providing all required information

Financial Highlights

- The assets of Worcester State University exceeded its liabilities at the close of the most recent fiscal year by $104,279,191 (net position). Of this amount, $13,592,318 is classified as unrestricted net assets. The figure is down from FY 2016 due to the draw of $9,500,000 of reserve funds as an equity contribution to the construction of the Wellness Center that occurred in September of 2015, in addition to the required GASB 68 accrual of pension expense of $2,764,131
- The University's total unrestricted net position decreased by $10,511,960 with a total change in net position of $24,407,611. Operational items that influenced the total change in net position includes income before other revenues, expenses, gains, or losses of ($1,630,916), in addition to the capital appropriations of $23,038,527 to fund Wellness Center Construction. The net loss prior to capital appropriations is directly attributable to the Commonwealth of Massachusetts pension obligation accrual required by GASB 68

Financial Analysis

- Net assets may serve over time as a useful indication of Worcester State University's financial position
- In the case of Worcester State University, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $106,048,583 at the close of fiscal year 2016
- By far the largest portion of the Worcester State University's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt, including capital leases, used to acquire those assets that are still outstanding
- Worcester State University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending
- Worcester State University's investment in its capital assets is reported net of related debt
- All plans, including any studies for the May Street property, will be shared with the Finance & Facilities Committee
- In FY 2016 the University closed the year with a slight operating surplus of $138,474, prior to the GASB 68 pension accrual adjustment
- The University closed the year, inclusive of the pension adjustment, with an operating loss of $1,630,918 compared with a loss of $673,465 at June 30, 2015
- Student fee revenue from all categories was slightly lower than budgeted and spending during the year did not allow for much return to reserves at year end
- The increase in net capital assets in FY 2016, was $27,438,288, while depreciation expense on capital assets was $4,664,588
- During the year $29,997,376 was expended on construction of the Wellness Center and building improvements were completed to the Student Center and LRC
- University received deferred maintenance funding to assist with the LRC and Student Center projects and to pay for several project planning studies
- The University's viability ratio, calculated as expendable net position divided by long term debt is 1 : .71 and 1 : 1.05 respectively, as of June 30, 2016, and June 30, 2015
- The viability ratio measures the availability of expendable net position to cover debt as of the balance sheet date
- A ratio of 1:1 or greater indicates an institution has sufficient expendable net position to satisfy its debt

- The University anticipated a significant downturn in its viability ratio in FY 2016 in anticipation of transferring $9.5M to DCAM in September of 2016 in accordance with the financing plan for the Wellness Center
- During the coming year a plan will be put in place to restore reserves and improve the University's operational ratios

Upon a motion by Trustee Fazzone and seconded by Trustee Albro, it was

VOTED: **to recommend approval to the full Board the acceptance of the FY 2016 Audit Report and to authorize the submission of the final document as required.**

EMERGENCY REPAIRS – 535 CHANDLER STREET

- VP Eichelroth submitted a memorandum dated October 5, 2016 describing the emergency repairs that were required at the President's residence located at 535 Chandler Street
- It was noted for members of the F&F Committee that the Worcester State Foundation is the owner of the property and there is an MOU that requires the University to provide all upkeep and repairs
- The situation with the electrical system was deemed a safety hazard requiring emergency action
- The cost of repairs was $12, 781.44 and vendor invoices were submitted with the memorandum of October 5th

Upon a motion by Trustee Steele and seconded by Trustee Albro, it was

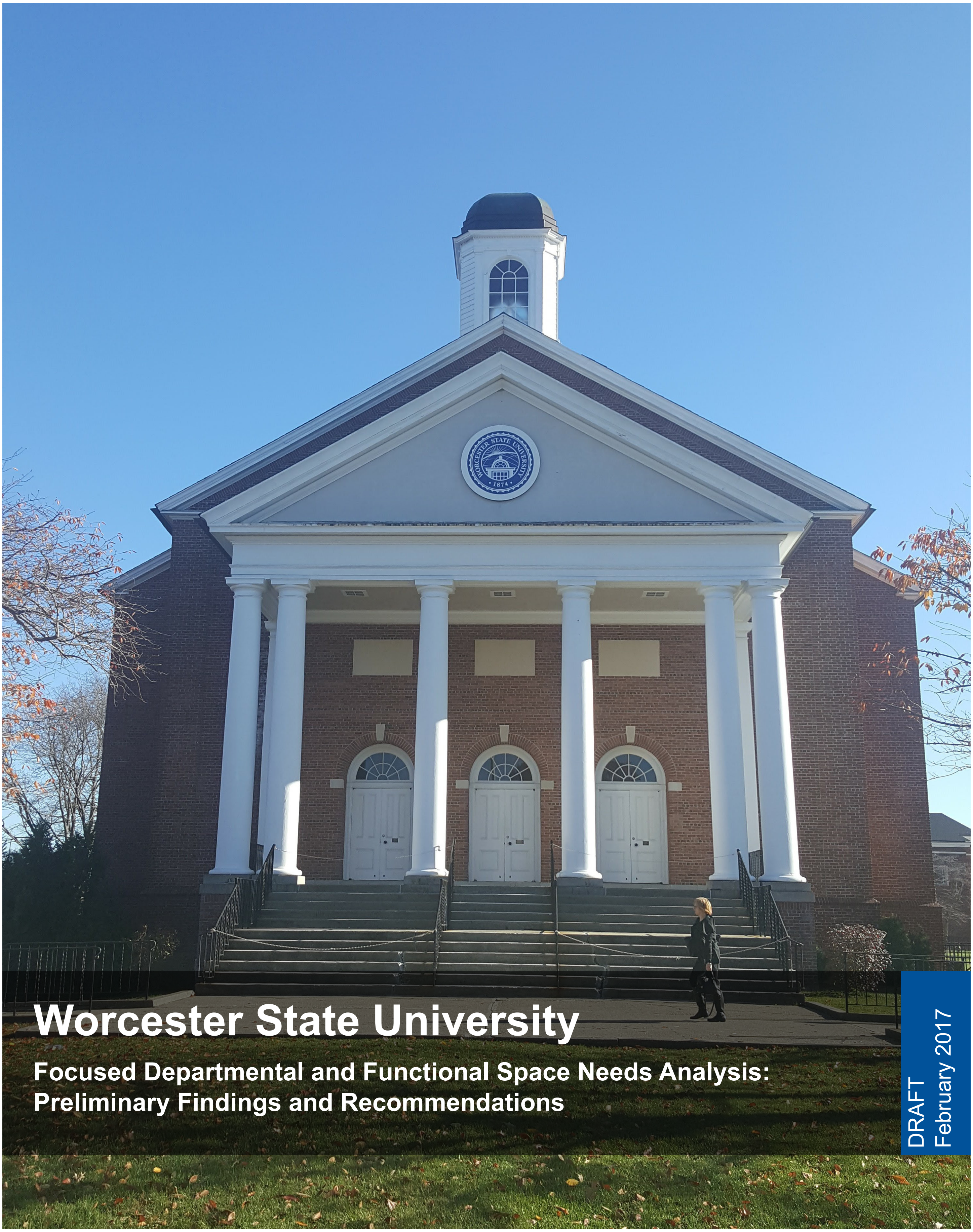
VOTED: **to recommend to the full board the approval of the completed emergency repairs at 535 Chandler Street in the amount of $12,781.44 as described in the memorandum of October 5, 2016 from VP Eichelroth and in accordance with the terms described in the MOU for the property between the Worcester State Foundation and the University.**

Upon a motion by Trustee Albro and seconded by Trustee Fazzone, it was

VOTED: **to adjourn the meeting at 5:25 p.m.**

Respectfully submitted,

Judith A. St. Amand
Assistant Secretary



Worcester State University

Focused Departmental and Functional Space Needs Analysis: Preliminary Findings and Recommendations

DRAFT
February 2017

Rickes Associates Inc.
Excellence in Higher Education Planning

Preliminary Findings and Recommendations

Overview

Rickes Associates (RA) has been tasked with identifying departments and functions that are candidates for being housed in the former Temple Emanuel complex on May Street ("May Street") and with recommending uses for space vacated by these departments. While Worcester State University (WSU) is currently occupying portions of the May Street property, future plans for the complex have not been defined. This study is an initial step in the decision-making process of whether May Street should be maintained as it exists, renovated, demolished and rebuilt, or some combination of the three.

Approach

Candidates for location at May Street were identified via quantitative and qualitative analyses that determined current and projected space needs and potential opportunities resulting from relocation. This review included academic departments and institutes, University Advancement, the Division of Graduate and Continuing Education, and University events. These analyses consisted of several interrelated components: data gathering, interviews, an instructional space utilization analysis, order-of-magnitude space programming, and test-fitting.

Over the course of several days, RA met with representatives from each entity within the scope of the study to discuss their use of current space, perceived space needs, programmatic changes, changes in staffing levels, and enrollment. Personnel projections, enrollment shifts, and programmatic changes for academic entities were vetted with the Provost. Separate conversations occurred with the President, Provost, and Vice President for Finance and Administration to summarize the interviews and learn the University's strategic direction and anticipated academic focus over the next five to ten years.

Instructional space needs were identified as a priority at the outset of the study. An instructional space utilization analysis was performed, using Fall 2015 course scheduling data. This analysis determined how current instructional spaces are used and the optimal number, types, capacities, and sizes of instructional spaces needed to meet instructional demand.

Using the quantitative and qualitative information gathered, an order-of-magnitude space program was developed resulting in blocks of space needed by each entity and function within the scope of this project. These blocks were used to test-fit location alternatives, beginning with those needs identified as priorities through the interview process. Test-fitting considered whether the additional and/or different space needed by certain departments was best suited to current locations, whether such space needs would displace other departments or functions, affinity and synergies between departments, and potential advantages of the May Street location. The goal of this process was to meet WSU's priority space needs within existing campus buildings and May Street, using existing infrastructure wherever possible.

Priority Space Needs

The most pressing space needs faced by the University are for specialized instructional (SI) spaces in the Natural Sciences and Nursing programs and for an adequate supply of appropriately-sized classrooms for the University as a whole. These findings are based on the prioritization of space related to the University's core educational mission as identified by WSU executive-level administrators, the instructional space utilization analysis, anticipated changes in staffing, and information regarding current and future programs and enrollment trends.

Specialized Instructional Space

While overall enrollment at the University is not expected to change significantly in the near future, enrollment in Biology, Chemistry, Environmental Science, and Earth, Environment and Physics courses is expected to grow. Potential for growth in Nursing programs also exists, but is limited by outside factors, such as the availability of faculty and clinical placements. Four additional SI spaces are needed to meet current and near-term instructional demand:

- a shared Biology/Chemistry flexible wet lab
- an Earth, Environment and Physics flexible dry lab
- an Environmental Sciences wet lab
- a Nursing Simulation lab

Classrooms

A mismatch exists between the distribution of classroom capacities on campus and course enrollments, resulting in a need for a number of 41- to 50-seat classrooms. During interviews, many academic representatives requested flat-floor, technology-enhanced classrooms, equipped with flexible, easily rearranged furniture to support a variety of seating arrangements. Active Learning Classrooms, or ALC's, were particularly sought after as classroom instruction at WSU – and across the country – more frequently involves students working cooperatively in groups.

ALC's cluster students in groups of six to nine, with a range of technology to support instructor- and student-led discussions. High-tech ALC's provide a monitor on the tables for each group of three students, as well as wall-mounted monitors to allow students to project their work. Lower-tech versions of ALC's may offer a select number of monitors, flexible furniture, and writing surfaces distributed around the room.

May Street

For the purposes of this study, the May Street property was considered as four buildings, as shown in the photo below. Building 1 is the former temple and Building 2 is a large multipurpose event space. Building 3 links Buildings 1 and 2 and contains a former chapel, offices, meeting, and other spaces. With the exception of a foyer and two Sociology Department offices on the first floor, Building 3 is unused. Building 4 contains classrooms and offices, conference rooms, meeting rooms, and support spaces for various University entities.

Each of these structures presents a variety of challenges related to building systems, internal circulation, and the alignment of floors from one structure to the next. While an assessment of building conditions and configuration is beyond the scope of this study, it is understood that the potential exists for substantial modification and/or demolition within the current complex.

Figure 1: May Street Buildings

Departments, Centers, and Institutes Currently at May Street

The Sociology Department, as well as several centers and institutes, currently occupy 4,580 ASF almost entirely within Building 4. When these entities were initially placed in existing spaces at May Street, they may not have been "right sized" to match the required space. Renovation or reconstruction of May Street should include programming of appropriate space for these occupants.

May Street Classrooms

There are currently eight classrooms, comprising 3,520 ASF, located within Building 4. Space reallocations proposed in this study will affect the distribution of classroom capacities elsewhere on campus. Given this fact, and the probability of extensive renovations to the May Street complex, this study recommends a new distribution of May Street classrooms geared to satisfying campus-wide needs. Ultimately, the capacities and types of classrooms located at May Street will depend upon the mix of academic departments located there and the amount of space available in other campus buildings.

May Street Event Space

Event space exists in Buildings 1 and 2. During the interviews, Conference and Events Services indicated that existing event space on campus was adequate to support WSU's needs, and a brief summary of events data from 2015-16 validates that. A data point that has not been quantified is the number of events that were *not* held due to space constraints. WSU stated the desire to hold more functions and events on campus, particularly those with an opportunity to generate revenue. A preference was also expressed for such space at May Street to be flexible enough to accommodate other purposes if needed.

Net Available Space and Preliminary Fit

Given the uncertainty regarding the future of the May Street structures, the amount of space available, or assignable square feet (ASF), for each building was estimated at 75 percent of the area of each floor, Floor area was measured from the interior surface of the outside walls, using floor plans provided by WSU. Total available space was estimated at almost 44,400 ASF, distributed among the four buildings as shown in the table below.

Figure 2: May Street Available Space

Building	ASF
1 (Temple)	13,100
2 (Multipurpose Space)	6,300
3 (Offices/Classrooms)	17,300
4 (Offices/Classrooms)	7,700
Total	**44,400**

Proposed Relocations

The priority SI space needs identified in this study are related to departments located in the Ghosh Science & Technology Center: Biology, Chemistry, Earth, Environment and Physics (EEP), and Nursing. Accommodating the SI space needs of these departments in Ghosh, and allowing for their other current and anticipated space needs in that building was seen as the preferred option, given the following factors:

- Ghosh contains spaces that are already equipped with the water, gas, vacuum, air, and venting infrastructure required by Biology and Chemistry labs.
- Biology, Chemistry, and EEP are interrelated natural sciences.
- Nursing and Biology have an affinity as Nursing students are required to take courses offered by the Biology Department.
- Locating spaces needed by these departments outside of Ghosh would lead to their fragmentation.

The expansion of these departments within Ghosh would necessitate displacement of other departments and functions to May Street. The following summarizes the proposed space shifts within Ghosh and to May Street, along with the subsequent backfill of vacated space that result from those moves.

Relocations within Ghosh Science and Technology Center

Proposed space reallocation within Ghosh focused on identifying adequate and appropriate space for teaching labs and associated spaces and blocks of space needed by departmental offices and office support. The proposed reallocation was especially sensitive to the infrastructure needs of SI spaces and how that infrastructure is currently distributed throughout the building. The proposed allocation of space within Ghosh is as follows:

- **Chemistry and Biology** would be located on the third and fourth floors to take advantage of the existing water, gas, vacuum, air, and venting infrastructure needed by these departments and the current concentration of these departments on those two floors.
- **Nursing** would remain on the second floor, where a simulation lab would be created.
- **Earth, Environment and Physics** would be relocated to the first floor and second floors. This would free space on the third and fourth floors that have the infrastructure necessary for Chemistry and Biology labs.
- **Communication Sciences and Disorders** would remain in its current location on the first floor, and gain the storage space that is now used by the Gallery.

Relocations from Ghosh Science and Technology Center to May Street

Departments and functions to be relocated from Ghosh to May Street were driven both by the need to provide appropriate space in Ghosh and by the feasibility of locating them at the May Street site. The following departments and functions are proposed to be relocated from Ghosh to May Street:

- **Health Sciences** consists of offices and office support space only, and does not have a clear affinity with departments in Ghosh.
- **Computer Science** has offices, office support space, a computer lab, and departmental storage, and does not have a clear affinity with departments in Ghosh. New or renovated space at May Street could provide efficient infrastructure and layout for computer labs and a robotics lab for this department.
- **Occupational Therapy** has offices as well as specialized instructional space. The department also brings in members of the community to provide students with hands-on experience. The May Street property could offer convenient, dedicated parking for these members of the public and provide them with access, especially for children, to departmental space separate from that for the general campus community. May Street could also provide additional workspace for students working with patient files as part of their outside clinical experience.
- **Mary Cosgrove Dolphin Gallery** could be located in the May Street property with the opportunity for more visible signature space supporting faculty, student, and guest artist exhibits. The May Street location could also provide nearby parking and proximity to a multipurpose space to host exhibit opening receptions and events.
- **Classrooms** would be created at May Street to replace those repurposed in Ghosh and to bring the total campus classroom distribution more in line with current needs. The eight existing May Street classrooms would be replaced by 10 appropriately-sized classrooms consisting of:
    - Two (2) 20-seat seminar rooms
    - Two (2) 30-seat collaborative rooms
    - Six (6) 50-seat Active Learning Classrooms

The following table summarizes the proposed order-of-magnitude space allocation for departments and functions currently located in Ghosh. The table represents the resulting square footage in Ghosh and May Street following the recommended moves and a redistribution of classroom space in both buildings.

Figure 3: Proposed Space in May Street and Ghosh for Current Ghosh Occupants

Department/Function	May St. ASF	Ghosh ASF
Academic Affairs (Classrooms)	11,400	4,270
Biology		18,355
Chemistry		16,345
Communication Sciences and Disorders		4,510
Dean for the School of Education, Health and Natural Sciences		880
Earth, Environment and Physics		12,035
Nursing		9,404
Computer Science	2,850	
Health Sciences	650	
Mary Cosgrove Dolphin Gallery	2,560	
Occupational Therapy	5,605	
Total	**23,065**	**65,799**

Other Relocations

The University has proposed the relocation of the departments of Psychology and Urban Studies from the Sullivan Building to May Street in order to foster a synergistic relationship with the Department of Sociology.

- **Urban Studies** space proposed for May Street includes additional space for CityLab and the Intergenerational Urban Institute.
- **Psychology** space proposed for May Street includes offices, specialized instructional space, and research space.

The movement of these departments to May Street makes possible the relocation of the Department of Criminal Justice from the Learning Resource Center to the Sullivan Building and for the provision of other needed space in Sullivan.

- **Criminal Justice** space proposed for the Sullivan Building would accommodate faculty, staff, and specialized instructional spaces, such as a forensics lab and a cybercrime lab.
- The existing Urban Studies and Psychology **classrooms** in Sullivan would become available to the Registrar for scheduling.
- The University identified a need for additional office space for the **Math** department, which could be accommodated in vacated space in Sullivan.
- The University would like to move the **Commonwealth Honors Program** from the Learning Resource Center to an academic building. Sullivan could offer space for this Program.

Additional Space Considerations

A desire for relocated, additional, or new types of space were expressed by various constituencies at the University.

- Additional **student gathering and study** space was identified by students and faculty as a campus-wide need. Where possible, such space should be created in May Street, and in space made available through relocations in Sullivan and the Learning Resource Center.
- Several departments and units expressed a desire for a **testing center** for evaluative, certification, licensure, or other testing to serve the University and the greater community. Such a facility could be a revenue-generator for WSU.

- The University expressed a desire to create **multipurpose space** at May Street that could be used for internal and external conferences and events and that could be a **"welcome center"** for prospective students.
- In order to make a welcome center fully functional, the option of relocating Admissions offices from the Administration Building to May Street should be explored. Such a move may also be desirable due to the parking associated with the May Street site and its presence as an easily identifiable landmark on campus.

Test Fit

The following table presents proposed total ASF for May Street and Ghosh and proposed ASF in Sullivan for those departments gaining space in Sullivan due to relocations.

Figure 4: Proposed Total Space in May Street and Ghosh and Affected Space in Sullivan

Department	May Street ASF	Ghosh ASF	Sullivan ASF
Academic Affairs (Classrooms)	11,400	4,270	21,240
Biology		18,355	
Chemistry		16,345	
Communication Sciences and Disorders		4,510	
Earth, Environment and Physics		12,035	
Nursing		9,404	
Dean for Education, Health and Natural Sciences		880	
Computer Science	2,850		
Health Sciences	650		
Occupational Therapy	5,605		
Urban Studies	2,840		
Psychology	4,980		
Sociology	780		
Mary Cosgrove Dolphin Gallery	2,560		
Testing Center	2,000		
Centers and Institutes	2,000		
Admissions (Administrative)	2,010		
Multipurpose/Events/Conference/Welcome Center	6,725		
Math			4,555
Criminal Justice			2,810
Commonwealth Honors Program			550
Total	**44,400**	**65,799**	**29,155**

The 44,400 ASF proposed for May Street is equivalent to the total current estimated assignable area of all four existing structures at the site. While the proposed order-of-magnitude space program for May Street fits into the quantity of space at May Street, it may not, as a practical matter, all fit into the present structures as currently configured. The estimate of available space at May Street is based on the conservative assumption that modification of the May Street complex would maintain an amount of usable space that would occupy something approximating the footprint of the existing buildings.

Subsequent studies that take into account how or if current structures can be modified to accommodate the uses outlined here would be necessary to determine if such a space program is feasible. Likewise, the possibility of additional space being made available through construction is beyond the scope of this study, and has not been considered here.

Summary

This study acknowledges that any or all structures on the May Street site may need to be significantly altered and/or demolished and rebuilt to meet code, condition, and accessibility requirements. Any of the buildings at May Street would need to undergo significant renovations to house the departments and functions proposed in this study. Given the space needs of Nursing and the natural sciences, their infrastructure needs, and the suitability of Ghosh to fulfill those needs, priority should be given to relocating the proposed departments from Ghosh to May Street.

There are a number of critical factors that will influence the final decision for the use of May Street and resulting backfill. The University must consider the anticipated resources for this project, existing infrastructure of buildings, and overall strategic goals for the campus. Next steps include a University review of the order-of-magnitude program presented in this report, and a discussion to refine the alternatives to best meet the needs of Worcester State University.

Worcester State University

General Trust Fund (400)

FY2017 Budget

		FY2017 Approved Budget Amendment#1	Final FY2017 Budget	Final FY2016 Budget
Sources of Funds:				
	Revenues	$ 45,131,514	$ 45,131,514	$ 43,144,774
	Transfer In - Reserves	-		900,000
	Transfer In - Worcester State Foundation	$ -		$ -
	Total Sources	$ 45,131,514	$ 45,131,514	$ 44,044,774
Uses of Funds:				
AA	Regular Employees	$ 12,163,082	$ 12,426,556	$ 11,586,000
BB	Employee Related Expenses	821,466	821,466	801,315
CC	Temporary Part-Time Employees	8,142,734	7,913,654	7,879,195
DD	Staff Benefit Expenses	4,530,697	4,623,334	3,885,301
EE	Administrative Expenses	2,880,056	2,880,056	2,458,860
FF	Facility Operation Supplies	1,615,714	1,615,714	1,667,593
GG	Energy/Space Rental	2,368,498	2,368,498	2,173,350
HH	Professional Services	1,328,383	1,328,383	1,214,896
JJ	Operational Services	772,564	772,564	731,488
KK	Equipment Purchase	197,001	197,001	202,219
LL	Equipment Lease, Maintenance, Repair	1,262,104	1,262,104	1,341,337
NN	Infrastructure & Building Improvements	4,475,775	4,348,744	4,729,244
RR	Educational Assistance	2,271,719	2,271,719	2,325,543
SS	Debt Service	307,013	307,013	577,013
UU	Technology Expenses	1,994,708	1,994,708	2,422,064
	Transfer Out -	-	-	49,356
	Total Uses	$ 45,131,514	$ 45,131,514	$ 44,044,774
	Net Sources / (Uses)	$ -	$ -	$ -

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Debt Management Policy

"Worcester State University is dedicated to offering high quality, affordable undergraduate and graduate academic programs and to promoting the lifelong intellectual growth, global awareness, and career opportunities of its students."

Source: Worcester State University Mission Statement

FY 2016 Financial Statement Review

OBJECTIVE:

To establish a policy and procedure for arranging and approving financing transactions that will cause the University to become indebted or contingently obligated to an outside third party. This policy, established by the Vice President of Finance and Administration and approved by the Board of Trustees ("Board") provides guidance for the prudent use of debt to finance capital projects that enable the University to fulfill its mission and achieve strategic objectives. This policy will be reviewed at least annually, as part of the presentation and discussion regarding the annual audited financial statements, to ensure financial and operational flexibility. Management will update the Board on a quarterly basis with an overview of the financial health of the University and its use of debt.

SCOPE:

This policy applies to all University financings.

INTRODUCTION:

Debt financing allows the University to pay for a capital asset over a period of time. This is a financially responsible practice for certain types of capital investments when within appropriate limitations and at appropriate interest rates. Debt financing may also be financially beneficial to the University if borrowing rates are below expected investment returns or if the University invests in capital assets which provide investment returns or cost savings which are greater than the cost of borrowing. Since debt capacity is limited and our demand for debt may from time-to-time exceed capacity, it is imperative that borrowings fund only those projects that support the vision, mission and values of the University.

Decisions regarding the use of appropriate financial leverage should be balanced to ensure the University's current financial health, while considering the financial effect of present decisions on future costs of capital.

DEBT FUNDING SOURCES:

Worcester State University, under the aegis of the Board of Higher Education (BHE), receives funding for capital projects from three sources: Commonwealth General Obligation Bonds; bonds issued by the Massachusetts Development Finance Agency (MassDevelopment); and bonds issued by the Massachusetts State College Building Authority (MSCBA).

<u>Commonwealth of Massachusetts General Obligation Bonds</u>
General obligation bonds of the Commonwealth provide capital funding for all of state government. Portions of the funds available through this source are assigned to various agencies through debt caps determined by the Executive Office of Administration and Finance. The cost of this debt, and its availability, depend on the creditworthiness of the Commonwealth as a whole. The Commonwealth assumes the liability for this debt and records it as such on its financial statements. The funds flow to the University as a capital appropriation and do not affect the University's debt capacity.

<u>MassDevelopment and MSCBA</u>
MassDevelopment and MSCBA debt is issued by quasi-public authorities for specific types of capital projects and are paid for via dedicated revenue streams. MassDevelopment is the sole source of tax-exempt funding for all nonprofit educational, health and cultural organizations in the state. The MSCBA issues debt to finance student activity and residential buildings. The cost and availability of MassDevelopment and MSCBA debt depends on the creditworthiness of the individual college for which a project is being financed. MassDevelopment financing is available upon receipt of legislative authorization of a specific project and related financing cap. Debt issued through MassDevelopment becomes debt of the university and is reported as such on its financial statements. Debt issued by the MSCBA, for MSCBA owned property, is debt of the MSCBA and is reported as such on their financial statements. MSCBA debt

issued for state owned property creates a long term liability for the university that is evidenced by a Memorandum of Understanding. A contingent liability is disclosed in a footnote in the university's financial statements for MSCBA owned properties. MassDevelopment issued debt directly reduces the university's debt capacity. MSCBA issued debt on MSCBA owned property obligates specific revenue streams thereby reducing available revenue streams to service future debt. MSCBA issued debt for state owned property also directly reduces the University's debt capacity.

Capital leases

Capital lease financing is available through the Commonwealth of Massachusetts Equipment Lease-Purchase (TELP), Massachusetts Higher Education Consortium (MHEC) leases and other viable leasing mechanisms within the Commonwealth's rules and regulations.

Alternative Financing

The College will work closely with the Board of Higher Education, various state or federal agencies, and other state colleges to explore and/or develop other potential debt financing vehicles.

POLICY:

The following debt policy and procedures establish the guidelines for the University activities related to the issuance and servicing of debt. Adherence to these policies and procedures will help ensure that the University's exposures are effectively managed. It is the responsibility of the Office of Vice President of Finance and Administration to analyze, evaluate, and propose to the University Board of Trustees any long or short-term debt (short-term debt includes, but is not limited to, revolving line of credit, overdraft facility, commercial paper, bankers' acceptance, letter of credit and accounts receivable discount facilities) required for University operations. The analysis would ensure that any proposed financing has the lowest possible cost commensurate with the most favorable financial terms, conditions and risks and is consistent with the University's capital structure requirements. The University's Board of Trustees, in consultation with the Vice President of Finance and Administration and General Counsel, will have final approval for any instrument, document or agreement (prior to execution) which will cause the University to become indebted or contingently obligated to a third party.

DEBT OPERATING GUIDELINES:

In developing a debt management strategy there are three primary guidelines to consider.

Affordability - Includes an analysis of the cost of capital, cash flow forecasts and rationale to instill budget discipline and help ensure that intergenerational equity is achieved. (Intergenerational equity refers to the concept of matching the beneficiaries and users of the capital projects financed using debt proceeds and the actual payment of the principal and interest on the debt used to finance the facilities)

Risk Management - Includes an appropriate weighting or mix between fixed and variable (when available) rate debt, a plan to manage liquidity risks and exposures and rationale for matching assets to liabilities.

Financial Structure / Balance Sheet Management- Includes a goal of establishing and maintaining the highest credit/bond rating possible, a rationale for the appropriate level of debt versus equity and proactive monitoring of the capital markets to manage unplanned inefficiencies or disequilibriums in both debt and investment markets.

Affordability

- When issuing debt, the University will seek the lowest-cost source of funding available.

- All annual debt interest and principal amortization payments will be provided for in the annual budget plan with a target not to exceed 5% of annual operating expenditures. FY 2016 Financial Statements provide for annual debt serve of $4,774,597. FY 2016 actual debt service was $1,384,979. Long term commitments exist with MSCBA to cover residence hall debt and parking garage debt from WSU operating revenues, in addition to bond financing for the Wellness Center which is owned by the Commonwealth and recorded as a fixed asset of the University. Contractual payments to cover these costs are budgeted for $7,910,830, $673,885, and $787,050 respectively in FY 2017. Residence Hall commitments are funded by student rents set by the MSCBA. Parking Garage and Wellness Center commitments are funded by the Capital Improvement Trust Fund.

- External borrowings will be coordinated to the extent practical so that multiple project needs can be accomplished in a single borrowing, thereby reducing issuance costs.

- The University will consider credit enhancement when it is cost beneficial and/or results in more favorable covenants.

- A project that has a related revenue stream or can create budgetary savings will receive priority consideration. For these projects, the use of debt must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs. However, this priority consideration is not meant to exclude other projects that are key to the University's mission and strategic initiatives.

- The cost of debt-financed capital acquisitions will be charged to the future users of the capital asset over the period the debt is outstanding and the assets usefulness.

Risk Management

- The University will actively consider refinancing outstanding debt only when net savings for the refinancing, measured on a net present value basis, are positive.

- Call options on outstanding debt will be exercised when; (1) they offer net present value savings when compared to alternative investment opportunities for these funds, (2) more favorable covenants can be obtained, and/or (3) the University desires to reshape the amortization pattern of its debt.

- The Office of Vice President of Finance and Administration will be responsible for monitoring the debt markets and recommending the appropriate tactical strategy depending on the interest rate environment, the University's liquidity position, tax regulations and market dynamics.

- In all borrowings, the University will strictly adhere to the principle of matching the term of the debt to the expected useful life of the project or to the purpose of the program being funded with that debt.

- Where financially feasible, debt will be retired as soon as possible to recapture debt capacity for future use. The maturity on a tax-exempt bond issue should be as short as economically feasible for the project, and will not exceed the useful life of the financed asset (this is more restrictive than the federal limit of 125% of the useful life).

- It is the general intent of the University to employ debt as a "financing vehicle" rather than a funding source. To the extent possible, internal funds, external gifts, grants, etc. will be used to 'fund" capital projects, with the use of debt as a temporary financing source and/or "lowest cost of capital" alternative.

- External borrowing will be for the minimum required portion of project cost. Projects with alternative restricted or unrestricted funding sources may only use debt financing for the unfunded portion and to bridge the timing of cash payments on gifts and pledges.

- Debt service payments will be made in an accurate and timely manner.

- Compliance with debt covenants will be monitored by the Office of Vice President of Finance and Administration and external auditors and reported regularly to the Board.

- The Office of Vice President of Finance and Administration will strive to structure borrowings such that the University meets the required "spend down tests" thereby enabling it to retain project fund earnings in excess of the "arbitrage yield".

- The Office of Vice President of Finance and Administration will monitor the University's rebatable arbitrage earnings for tax purposes on an annual basis and evaluate compliance with IRS private use rules at issuance and periodically thereafter.

- The University's "debt capacity" will be determined from time to time, based on the evaluation of bond rating agency guidelines with the goal of maintaining the current minimum investment grade rating of A - and preferably, a rating of A or better.

Based on the three main objectives previously identified, the following guidelines will be used, although they are not intended to be all-inclusive.

Financial Ratios

This policy establishes guidelines to measure the total amount of debt outstanding and to assess overall financial health. The following ratios are consistent with ratios utilized in the higher education industry and should be reviewed at least annually and on a pro forma basis when considering debt financed projects.

Viability Ratio FY 2016 = .68
This ratio measures the availability of expendable net assets to pay off long term debt. A ratio of 1.0 or higher indicates an institution has sufficient net assets to satisfy debt requirements.

Ratio = Expendable Net Assets/Long-Term Debt

Debt Burden Ratio FY 2016 = 1.5%
This ratio expresses annual debt service payments as a percent of total expenses. It measures an institution's ability to repay debt service on all outstanding debt and its impact on the institution's overall budget.

Ratio = Annual Debt Service/Total Expenses

As a general guideline, it is believed that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs would be compromised. It is understood that rising expenses could make this ratio seem more attractive, though misleading, and is evaluated in conjunction with an institution's income statement.

Primary Reserve Ratio FY 2016 = 1 : .1776
This ratio provides a snapshot of an institution's financial strength and flexibility. The ratio indicates how long the University could operate using expendable reserves without relying on additional new assets generated by operations. Trend analysis indicates whether an institution has increased its net worth in proportion to its rate of growth. A negative or decreasing trend indicates a weakening financial condition.

Ratio = Unrestricted & Expendable Net Assets / Total Operating Expenses

Return on Net Assets Ratio FY 2016 = 25.83%
This ratio reports whether an institution's resources are growing and if it is financially better off than in previous years. It is important to assess this ratio as a linear trend – an increasing trend indicates an increase in net assets and an increased likelihood that the institution is able to set aside financial resources to strengthen future flexibility. Single year events, like a substantial gift or extreme investment performance, can cause significant year-to-year volatility.

Ratio = Increase (Decrease) in Net Assets / Beginning of Year Net Assets

Net Operating Revenues Ratio FY 2016 = -1.74%
This ratio indicates whether operating activities resulted in a surplus or deficit. A positive ratio indicates the College experienced an operating surplus; a continuing decline or pattern of deficits indicates financial problems.

Ratio = Adjusted Net Operating Revenues / Adjusted Total Income

PROCEDURES:

Whenever short or long-term debt is required to fund University operations, or whenever there are transactions that would contingently obligate the University, the Office of Vice President of Finance and Administration must be contacted to arrange and/or approve all terms, conditions and financial covenants.

General Counsel must approve the legal form on all instruments, documents or agreements relating to financing, indebtedness and contingent obligations.

The Board of Trustees must approve all tax-exempt borrowings and any "indebtedness," or "contingent obligations."

Whenever Board of Trustee approval is required, the Office of Vice President of Finance and Administration will prepare the appropriate Board authorization resolution.

CONCLUSION:

The debt strategy outlined in this policy is designed to provide discipline to capital financing and operating budget decisions, and provide guidelines to manage interest rate and liquidity risk and ensure appropriate balance is achieved between debt, equity and cost of capital. To succeed there must be proactive management by the Office of the Vice President of Finance and Administration, active oversight by the Board and a commitment by all to adhere to the principles and objectives set forth in this policy.

GLOSSARY OF TERMS

Adjusted Change in Net Assets	Change in Unrestricted Net Assets per the statement of activities, plus depreciation and interest expense.
Credit	Credit is the ability to repay a financial obligation. A measure of the quality and safety of a bond, based on the University's financial condition. More specifically, an evaluation from a rating agency indicating the relative likelihood that the College will be able to meet scheduled interest and principal repayments to investors. Credit Rating
Debt	All short and long term obligations, guarantees, and instruments that have the effect of committing the University to future payments and therefore impacting its credit.
Debt Capacity	The amount of debt the University can take on under specified criteria. Internal criteria include financial ratios. External criteria include credit ratings from rating agencies.
Financial Ratios	One value divided by another which are used to study and interpret relationships between financial variables.
Leverage	The degree to which the University is utilizing borrowed money versus internal funds to finance projects.
Net Investment in Plant	Total plant, property and equipment assets less long-term debt and accumulated depreciation.
Rating Agencies	Companies that publish borrowers' credit ratings, such as Moody's and Standard and Poor

WORCESTER STATE UNIVERSITY

Financial Ration Trent Analysis
5 Year Review
Fiscal Years 2012 through 2016

Primary Reserve Ratio

Are the resources sufficient and flexible enough to support the College's mission?

This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations.

FY 2016 Analysis:
WSU transferred $9.5M of reserves to DCAM during FY 2016 as part of the financing plan for the Wellness Center resulting in a further reduction to Unrestricted Net Assets. This transfer had be planned for and was reflected in previous ratios and capital financing scenarios. Total Expendable Net Assets was decreased in FY2015 by $10.5M due to a change in presentation of the Commonwealth's pension liability as it pertains to WSU employees. Managment had not anticipated a change in presentation of pension liability by the Commonwealth as a result it was not anticpated ,or planned for ,when updating previous ratio analysis and evaluating furture capital financing plans of the Institution. The Capital Financing Plan will be updated with a goal to restore reserves to 30% of total expenses by 2022.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
PRIMARY RESERVE RATIO					
Unrestricted Net Assets	13,592,318.00	24,104,278.00	34,051,291.00	30,722,888.00	30,428,591.00
Expendable restricted net assets	3,365,187.00	2,630,207.00	3,120,338.00	3,150,370.00	2,570,361.00
Expendable Net Assets	16,957,505.00	26,734,485.00	37,171,629.00	33,873,258.00	32,998,952.00
Total Operating Expenses	95,491,933.00	90,084,965.00	82,660,206.00	78,634,901.00	73,988,423.00
Interest Expense					
Total Expenses	95,491,933.00	90,084,965.00	82,660,206.00	78,634,901.00	73,988,423.00
PRIMARY RESERVE RATIO	0.1776	0.2968	0.4497	0.4308	0.4460

Viability Ratio

Is debt managed strategically to advance the College's mission?

This ratio measures one of the most basic determinants of clear financial health - the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the balance sheet date.

A ratio of 1:1 or greater indicates that, as of the balance sheet date, the College has sufficient expendable net assets to satisfy its debt obligation.

FY 2016 Analysis:
The University anticipated a significant downturn in its viability ratio in FY 2016 due to the transfer of $9.5M to DCAM in September of 2016 in accordance with the financing plan for the Wellness Center, in addition to the negative impact of the GASB 68 pension adjustment. In the coming year a plan will be put in place to restore reserves and improve the University's operational ratios.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
VIABILITY RATIO					
Unrestricted Net Assets	13,592,318.00	24,104,278.00	34,051,291.00	30,722,888.00	30,428,591.00
Expendable restricted net assets	3,365,187.00	2,630,207.00	3,120,338.00	3,150,370.00	2,570,361.00
Expendable Net Assets	16,957,505.00	26,734,485.00	37,171,629.00	33,873,258.00	32,998,952.00
Current Liabilities					
Current Portion of Cap Lease	467,514.00	197,403.00	193,497.00		
Current Portion of bonds, notes pay	635,667.00	615,667.00	595,667.00	410,667.00	370,667.00
Noncurrent Liabilities					
Capital Lease Obligations	451,100.00	303,600.00	501,003.00		
Bonds, notes payable, & other	24,145,858.00	24,817,219.00	25,488,652.00	26,099,942.00	11,691,000.00
Long Term Debt.	24,781,525.00	25,432,886.00	26,084,319.00	26,510,609.00	12,061,667.00
VIABILITY RATIO	0.68	1.05	1.43	1.28	2.74

Return on Net Asset Ratio

Does financial asset performance support the strategic direction of the College?

This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. A temporary decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission.

An improving trend indicates the institution is increasing its net assets and is likely able to set aside financial resources to strengthen its future financial flexibility.

FY 2016 Analysis:

In FY 2016 construction of the Wellness Center was funded by the Commonwealth of Massachusetts general obligation bonds in the amount of $22,240,844 in addition to $5,998,592 of the $15M bond proceeds the University borrowed for the project in 2012 through the MSCBA and placed on deposit with the Commonwealth Division of Capital Asset Management. An additional $1,300,891 was incurred to outfit the furniture and equipment needs of the facility. Purchases to fit out the facility continued into the fall of 2016. The General Obligation bonds expended by the Commonwealth to construct the facility add a significant boost to the University net asset balances at year end as they are funds for which the University receives without obligation for repayment. The spending of MSCBA bond proceeds had a neutral effect on net assets as the funds moved from cash held by the State Treasurer to Construction in Progress. In addition, the University's investment in the contents of the facility also provided a boost to the campuses net asset value. In years of significant infrastructure investment the net asset ratio experiences a spike in value which levels out when the campus returns to traditional deferred maintenance and infrastructure investments levels.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
RETURN ON TOTAL NET ASSETS					
Change in Total Net Assets	21,407,611.00	1,971,897.00	3,600,032.00	(448,020.00)	1,295,776.00
Total Net Assets - Beginning of Year	82,871,582.00	80,899,685.00	87,866,785.00	88,314,805.00	87,162,957.00
RETURN ON TOTAL NET ASSETS	25.83%	2.44%	4.10%	-0.51%	1.49%

Net Operating Revenue Ratio

Do the operating results indicate that the College is living within available resources?

This ratio indicates whether total operating activities resulted in a surplus or deficit.

A positive ratio indicates that the institution experienced an operating surplus for the year.

FY 2016 Analysis:
The net operating loss of $1,630,916 was attributable to the pension liability accrual adjustment required by GASB 68. Prior to posting the accrual the University had realized a slight operating surplus of $138, 474. Despite the net operating results, the Capital Improvement Trust Fund continues to accumulate an annual operating surplus as intended with the goal of building the trust fund balance as leverage for future capital investment.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
NET OPERATING REVENUES RATIO					
Operating Revenues	59,443,269.00	57,098,983.00	53,725,958.00	51,829,359.00	48,814,395.00
less Operating Expenses	(95,491,933.00)	(90,084,965.00)	(82,660,206.00)	(78,634,901.00)	(73,988,423.00)
Plus Net Nonoperating Revenues	34,417,747.00	32,312,517.00	30,476,221.00	26,357,522.00	26,469,804.00
Oper. Inc (loss) plus Non-Op Rev (Exp)	(1,630,917.00)	(673,465.00)	1,541,973.00	(448,020.00)	1,295,776.00
Operating Revenues	59,443,269.00	57,098,983.00	53,725,958.00	51,829,359.00	48,814,394.00
Plus Net Nonoperating Revenues	34,417,747.00	32,312,517.00	30,476,221.00	26,357,522.00	26,469,804.00
Interest					
Oper Revenues plus Oper Expn	93,861,016.00	89,411,500.00	84,202,179.00	78,186,881.00	75,284,198.00
NET OPERATING REVENUE RATIO	-1.74%	-0.75%	1.83%	-0.57%	1.72%

Debt Capacity Ratio

Debt capacity analysis evaluates the College's long-term obligations and the institution's ability to meet debt service demands.

The debt capacity ratio is used by rating agencies and assesses an institution's ability to meet future debt service obligations with current unrestricted resources.

The ratio equals the maximum annual debt service divided by unrestricted current fund expenditures less mandatory transfers.

		Annual Debt Service	all exp Ratio
Actual			
FY 2012		928,485	1.3%
FY 2013		930,287	1.2%
FY 2014		1,384,979	1.7%
FY 2015		1,384,979	1.5%
FY 2016		1,384,979	1.5%
	CY benchmark	4,774,597	0.05 oper exp.

Debt Service Coverage Ratio

This ratio measures the excess of income over adjusted expenses available to cover annual debt service payments.

Provides a level of comfort that an institution has a net revenue stream available to meet its debt burden should economic conditions change.

A high ratio is preferred, a low ratio or declining trend would create concern about the institution's ability to sustain operations, especially during a period budgetary challenges.

Ratio is calculated as adjusted change in net assets divided by debt service.

	Annual Debt Service	Ratio
Actual		
FY 2012	928,485	1.40
FY2013	930,287	(0.48)
FY2014	1,384,979	2.60
FY2015	1,384,979	1.42
FY2016	1,384,979	0.10