



**STATE OF MISSISSIPPI
INSTITUTIONS OF HIGHER LEARNING**

Alfred Rankins, Jr., Ph.D.
Commissioner of Higher Education

October 13, 2023

Dr. Daniel Ennis, President
Delta State University
Box A-1
Cleveland, MS 38733

Dear Dr. Ennis,

This letter serves as a communication related to Board Policy 713 Institutional Financial Sustainability. The purpose of the policy is to ensure that “sustainable institutions continue to serve the state of Mississippi.” As Commissioner, I am required to evaluate institutional financial information to determine whether your institution is managed in a financially sustainable manner and make recommendations of financial targets appropriate in my judgment. This communication, your responses, and follow through with actions which may be warranted to bring your institution into compliance with the requirements of Board Policy 713 serves as a component of your performance evaluation as Institutional Executive Officer.

I have reviewed the results of the FY 2022 financial statements as audited on February 28, 2023, in addition to the unaudited results from FY 2023 which were provided in September 2023. I have also asked Dr. John Pearce, Senior Associate Commissioner for Finance, to review these results as well. Based on my review, I have the following comments on the financial sustainability of Delta State University.

Adequate Coverage of Annual Debt Service

Delta State University did not adequately cover the annual debt service for FY 202. The debt service coverage ratio is 1.18 times which is below our minimum expectation of 1.50 times. DSU has failed to consistently meet this requirement, which has been inadequate in 4 of the last 5 years. Moving forward, I am maintaining the expectation that DSU meet the 1.50 times minimum for the fiscal year ending June 30, 2024. Meeting this requirement in FY 2024 is a high financial priority for DSU.

Adequate Cash on Hand

Delta State University does not have an adequate amount of cash on hand for FY 2023. As of June 30, 2023, the university had 24 days of cash on hand. This fails to meet our minimum expectation of 90 days of cash on hand. Increasing the days of cash on hand to the minimum requirement is the highest financial priority for the university. In consideration of DSU's position, I believe that DSU needs to increase cash on hand by \$1 million by June 30, 2024. The unaudited figure as of June 30, 2023 provided to my office is \$4.9 million. Therefore, it is my expectation that DSU attain \$5.9 million in cash on hand

by June 30, 2024. I invite you to consider this goal and provide feedback if you believe that this would cause long-term harm to Delta State University so that we may mutually discuss this request.

Adequate Reserves

Delta State University has an inadequate amount of reserves for FY 20232. Our expectation is that the university have no more than \$1.50 in long-term liabilities for every \$1.00 in unrestricted net assets, adjusted for the state's pension liability. The university is close to meeting this requirement with \$1.51 in long-term liabilities to unrestricted net assets. My expectation is that the university will come into and maintain compliance with \$1.50 times in FY 2024 and periods thereafter.

Age of Facilities Ratio

The Financial Sustainability policy requires that I review all aspects of institutional finances to determine whether an institution is sustainable. Although there are 3 minimum criteria, another aspect of the institution's financial condition came to my attention during my review. This is the Age of Facilities Ratio. This ratio is an accounting estimate of the general age of capitalization of the university's facilities whether through new construction or renovation. Although not a precise measurement, this ratio has been trending higher in recent years from 17.60 years in FY 2014 to 20.44 in FY 2022 and provides a general indication of aging facilities. FY 2022 exceeds the system average of 15 years. This is not an evaluation criterion for the purpose of this letter, but this is an area that deserves consideration in institutional planning.

Contract and Procurement Process Review from Board Policy 707.01

The Board of Trustees revised Board Policy 707.01 Land, Property, and Service Contracts in September 2020 to require an annual review of the procurement and contracting processes at all institutions. Subsequently, we engaged CliftonLarsonAllen (CLA) to conduct the initial review. Board Policy 707.01 requires that the Commissioner annually communicate to the Institutional Executive Officer whether the institution is compliant with the conditions required in Board Policy 707.01 to justify a higher threshold for contracts requiring approval from the Board of Trustees. In May 2022, we received the report from CLA which concluded that the institution's processes are "Unsatisfactory." Therefore, I concluded that higher authorization levels were not justified for the institution in FY 2023. We received another review conducted by the IHL Internal Audit department in September 2023. Our internal auditor determined that the process was "Needs Improvement." While this is a better outcome than the previous review, my expectation is that the institution attains a conclusion of "Satisfactory" in the next review cycle. Should the next assessment fail to achieve a conclusion of "Satisfactory" this may result in a negative reflection of your performance as the Institutional Executive Officer. I will be relying on this review to form my opinion of the contract threshold for FY 2024 as well as the related performance evaluation.

Fall Enrollment and Tuition Revenue Projections

During preparation for the FY 2024 annual operating budget, the university provided an estimate of -13% enrollment decline in the upcoming budget. This enrollment decline was based upon declines in previous years for which the budget had not been adjusted. This was paired with a 3.0% increase due to an increase in tuition prices. By this time, the university should have an idea of actual enrollment for Fall 2023. It is my expectation that you will monitor actual enrollment relative to the amount of enrollment for which the budget was prepared. Should enrollment or net tuition revenue fail to meet the assumptions

prepared in the budget, it is also my expectation that you will reduce expenditures accordingly in order to avoid an operating deficit.

Public Employees Retirement Employer Contribution Increase

The PERS Board voted to increase the employer portion of the retirement contribution from 17.4% to 22.4% beginning on July 1, 2024. Based on current payroll, we estimate that campus budget will have approximately \$1.3 million in additional contributions. Although we have requested that this be funded by our Legislature, I believe that we should be prepared in case funding is not provided. It is my expectation that you prepare a contingency plan for the operation of the institution should this funding not be available.

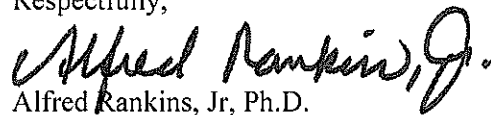
Action Items

The following is a list of action items requested in this letter:

- Monitoring of Fall 2023 enrollment compared to budget assumptions for enrollment and net tuition revenue and adjustment of operating expenditures in the event minimum assumptions are not met.
- Increase cash to at least \$5.9 million by June 30, 2024.
- Plan to absorb PERS contribution increase and maintain debt service coverage requirements in Fiscal Year 2025.

In conclusion, I want to thank you for your service to Delta State University and the State of Mississippi. Should you have any questions about this information, please do not hesitate to contact me or Dr. Pearce.

Respectfully,



Alfred Rankins, Jr, Ph.D.
Commissioner of Higher Education

c: Dr. Alfred E. McNair, Jr., President, IHL Board
Mr. Bruce Martin, Vice President, IHL Board
Mr. Tom Duff, Chair, IHL Board Finance Committee