

From: [Michael Perik](#) on behalf of [Michael Perik <mperik@higheredpartner.com>](#)
To: [Laura Meeks](#)
Cc: [Mike](#)
Subject: Tomorrow's Budget Meeting
Date: Sunday, July 27, 2014 12:33:36 PM

Laura , I would like to thank you for the very productive lunch we had in Maryland on Tuesday. As promised I would like to outline the items I believe we reached an agreement on principle on at our meeting subject to working out the necessary details at tomorrow's session.

Let me begin by reiterating that I appreciate both the optics and substance of budget decisions as they effect the balance between the Youngstown , Steubenville and soon to be Warren campuses. We are prepared in both FY 2015 and FY 2016 to work with the College to insure that we reach an agreement that will meet the needs of both sides.

As we are sensitive to the issues surrounding Steubenville I ask you to be sensitive to our need to have the financial arrangements work as they were intended to in the original agreement. The credibility of Higher Education Partners is very much on the line with our investors as we come to the third year of our agreement . Just like we cannot benefit in the long run if EGCC is put into financial difficulty ; EGCC will not in the long run benefit if our investors believe here has been any material deviation away from the plan we agreed to in the 2011 Collaboration Agreement.

We believe that EGCC is just starting to grow and that it will double in size in the next two years but that such growth will require millions of dollars for facilities and equipment and our ability to provide that capital will hinge on showing that the current economics are working as planned.

Let me summarize what I believe are the major issues and what I think we agreed were the broad solutions.

First. It is difficult to solve math problems if both parties aren't using the same equations. The budgeted models provided us have been using approx 13,000 credit hours for Fall 15. We believe that the enrollment data instead is solving for between 16,000 and 17,000 credit hours. As of Friday we were still experiencing 65 percent year over year growth which if sustained will solve for north of 17,000 credit hours providing an additional million dollars in annual revenues. I would suggest we use an agreed upon number of say 16 thousand credit hours to model out a budget with assumed growth of 40 percent for FY 16 so we might have clearer idea of future cash flows.

It goes without saying that additional revenues will have a way of creating a win win situation for both of us by allowing quick payback of our operating losses and accrued service fees and creating the framework whereby EGCC can start to financially benefit from each incremental dollar.

The changes in how the State funds your subsidy has been a sensitive one between us. We understand your ultimate desire to use the same methodology in dividing the subsidy between your campuses internally as is used by Ohio in meting it out to Colleges. In the end given the projected relative sizes of the campuses and the fact that after the first few years we will only share in about 15 percent of those revenues HEP should quickly reach a point of indifference.

That said we are not at an indifference point today. We like your offer to hold us essentially harmless for a period of time perhaps if I heard right at lunch 5 years. We would be open to agreeing to this as long as it was crystal clear what the methodology is and I understand how we can effectively audit it's implementation. My sincere desire is to institutionalize our reconciliation process so that in future quarters it can be handled by our respective financial teams and not require the intervention of either of us.

We are also sensitive to how the budget grows. It is easy to raise costs but much harder to cut them back once they are in place. We are particularly sensitive to allocations between campuses. We would prefer to see certain costs totally moved from Steubenville to Youngstown. Marketing is the best example. All of our research from Bully Pulpit is showing a very low brand awareness of EGCC. Over the next two years increased expenditures in that area

could drive enrollment growth with the added benefit of reducing the financial burden on the Steubenville budget at a time when you have the Hope grant ending and continued enrollment declines.

I also heard you on the need for some additional ways to provide cash to the College in 2015 and 2016. I believe that we could help reduce the cash burden of developmental education and provide royalty advances around online programs in partnership with Pearson both of which might bridge the effect of HOPE and declining enrollments on the Steubenville budget. As you know I prefer this to deferring amounts due from Youngstown but I believe we could get you to the same place .But not in a way that is just kicking the can down the road.

In addition to the big picture budget issues, I think we need to tighten up the overall budget process with better monthly reporting and better communication between our two finance teams. This is why I am bringing Steve Wynne with me tomorrow.

Laura . My thanks again for your openness to my concerns and your willingness to reach common ground. We have done good work together and really want to make sure that your final year as President insures a legacy that will stay in place for decades.

With Regards

Michael

Sent from my iPad