Long-term Trends Impacting the University’s Budget

University of Missouri
Board of Curators
April 12-13, 2018
Finance Committee

Review Fiscal Year 2019 Operating Budget
Planning - UM
Where we’ve been
State Support is Changing Significantly

State appropriations

Year

Only drop without preceding recession

Shaded portions represent economic recession
Eras/Trending in State Funding

State Appropriations Adjusted for Inflation ($2017 using CPI-U)

State Investment

State Slow Growth

State Slow Decline

Peak of Missouri’s public research University?

Shaded portions represent economic recession

Appropriations
Dynamics between Enrollment and State Revenue Shift in 2001

State Investment + Enrollment Growth

State Slow Growth + Enrollment Maintenance

State Slow Decline + Enrollment Growth

Shaded portions represent economic recession

- April 12-13, 2018

University of Missouri System
COLUMBIA | KANSAS CITY | ROLLA | ST. LOUIS

OPEN – FIN – INFO 3-28
Tuition Replaces State Support as Primary Revenue Source

First time in U. history where both tuition and state support 3 yr. drop
Real Resources per Student has Changed in Proportion and is Declining

- Real Approps per Student
- Real Tuition per Student

Shaded portions represent economic recession
Missouri Ranks Last in Revenue per FTE Student Growth Since the Great Recession (through 2017)

- Over this timeframe, Missouri ranks 50th in growth in tuition per student and 42nd in growth in state support per student.
- Missouri was one of two states to see a decline in both state support and tuition.
- From 2016 to 2017, Missouri saw the largest annual drop in total revenues per student at 8.4%.

Source: SHEEO
Tuition Growth has Accelerated, but total revenue per student remains below inflation
Degree cost flat since 2001, down since 2014

Total Operating Expense per Degree Awarded

Expense per Degree Awarded ($) vs. Degrees Awarded

- Actual Operating Expense per Degree Awarded
- 2001 Operating Expense per Degree Awarded - CPI Adjusted
- Degrees Awarded

FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17

$45,000 $50,000 $55,000 $60,000 $65,000 $70,000 $75,000 $80,000 $85,000

$11,000 $12,000 $13,000 $14,000 $15,000 $16,000 $17,000 $18,000 $19,000
State Appropriations and Research Trend Together

- **State Investment + Enrollment Growth**
- **State Slow Growth + Enrollment Maintenance**
- **State Slow Decline + Enrollment Growth**
## Resources per Student has Broad-reaching Impacts

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Resources per student</td>
<td>Volatile Growth</td>
<td>Steady Growth</td>
<td>Peak</td>
<td>Steady Decline</td>
<td>Steady Decline</td>
</tr>
<tr>
<td>Federal Research Rank</td>
<td>88</td>
<td>105</td>
<td>79</td>
<td>98</td>
<td>105</td>
</tr>
<tr>
<td>Full Professor Salary</td>
<td>82%</td>
<td>81%</td>
<td>88%</td>
<td>86%</td>
<td>85%</td>
</tr>
<tr>
<td>(as % AAU Average)</td>
<td></td>
<td></td>
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<tr>
<td>Associate Professor Salary</td>
<td>89%</td>
<td>86%</td>
<td>96%</td>
<td>86%</td>
<td>84%</td>
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<tr>
<td>(as % AAU Average)</td>
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<tr>
<td>Assistant Professor Salary</td>
<td>91%</td>
<td>92%</td>
<td>91%</td>
<td>81%</td>
<td>80%</td>
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<tr>
<td>(as % AAU Average)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student to Faculty Ratio</td>
<td>19.1</td>
<td>20.8</td>
<td>19.9</td>
<td>19.7</td>
<td>20.0</td>
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</table>
Where we are
Financial Performance is Weakening

- Revenue growth for FY 2018 is projected at 0.3% (market profile)
  - “Market profile provides the foundation for a university’s long-term financial health and credit rating.” – Moody’s
  - “Multiple years of underinvestment can erode competitive position”

- Operating expenses projected to grow faster than revenues for 2018 – reducing operating income.

- Total wealth and cash measures remain strong – but poor operating performance will erode the balance sheet.

- Debt metrics remain strong as well, but poor financial performance increases the burden of already outstanding debt.
Mainly in the Academic Enterprise

<table>
<thead>
<tr>
<th></th>
<th>Operating Revenues</th>
<th>Operating Expense</th>
<th>Operating Income</th>
<th>Non-Operating Items</th>
<th>Net Income</th>
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</thead>
<tbody>
<tr>
<td>Columbia</td>
<td>1,342</td>
<td>1,361</td>
<td>(19)</td>
<td>134</td>
<td>115</td>
</tr>
<tr>
<td>Kansas City</td>
<td>365</td>
<td>384</td>
<td>(19)</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Missouri S&amp;T</td>
<td>221</td>
<td>220</td>
<td>1</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>St Louis</td>
<td>214</td>
<td>211</td>
<td>3</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total - Academic Enterprise</strong></td>
<td><strong>2,142</strong></td>
<td><strong>2,176</strong></td>
<td><strong>(34)</strong></td>
<td><strong>176</strong></td>
<td><strong>142</strong></td>
</tr>
<tr>
<td>UM System</td>
<td>72</td>
<td>71</td>
<td>1</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Hospital</td>
<td>1,004</td>
<td>897</td>
<td>107</td>
<td>(31)</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total Consolidated</strong></td>
<td><strong>3,218</strong></td>
<td><strong>3,144</strong></td>
<td><strong>74</strong></td>
<td><strong>180</strong></td>
<td><strong>254</strong></td>
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</tbody>
</table>
Tuition & fees remains competitive, resources per student low to surrounding states

Source: IPEDS 2016

*denotes AAU members
Three factors driving revenue

▪ Falling State Appropriations

▪ Flat to Falling Tuition per Student

▪ Highly Competitive Enrollment Environment

The University of Missouri System has not seen these 3 factors together since formation
Where we are going
Midwest Pool of High School Graduates will Shrink

Projected HS Grads by Market

-20% -15% -10% -5% 0% 5% 10%


Midwest less MO  Illinois  Missouri
State Revenues Remain Challenged

Why Are States So Strapped For Cash? – “The proportion of state and local tax revenues dedicated to Medicaid and public pensions is the highest since the program started in the 1960’s.” – Wall Street Journal

Crowded Out: The Outlook for State Higher Education Spending – “Mandatory spending programs, specifically Medicaid, are requiring more state funds… Higher education funding has borne the brunt of much of this crowding out falling from 14 percent of state spending in the late 1980’s to just over 12 percent today. Our baseline forecasts show that trend continuing throughout the next decade and beyond.” – Moody’s
Without action, a $150-200 million gap forms

Annual Assumptions

• 1% New Enrollment Growth
• 2% Tuition Increases
• Flat to Declining State Support
• Flat Employee Headcount
• 2% Salary Merit Pool

Total Revenues

Total Expenses

Projected

Millions


$160 million
So, at this moment...

- Tuition has become a primary revenue source; flattening enrollment and fewer high school graduates
- Market tuition; tuition rates are now competitive in public higher ed
- State support remains challenged; slow tax growth coupled with higher expenses in mandatory programs

The public higher ed horizon looks different than ever before.

- Research is connected to state support and/or tuition; requires investment
- Limited resources per student; affects class size, faculty salaries, competitiveness
- Resources are not available to grow research

The capacity to remain competitive in research is deteriorating.

- Salaries have and will continue to erode under resource constraints
- Invites risk when our most important resource is our intellect

The ability to attract and retain top talent is declining.

- Since 2011, the University earns more from students than from the state
- Preserve University’s access mission

Economics shifts burden to students.

These long-term trends are not going away.
Now is the time for change

- Our environment is changing, and the long term trends are not going away
- We must change significantly as an institution to thrive
  - Must maintain our quality, and this will require investment
  - Investment will not come from the state
  - Some investment might come from tuition, but it must be program specific
  - Administrative review will generate some investment, but it won't solve all of our needs
  - Academic innovation, productivity and program review will remain a keys to our success
Key Platforms to Achieve Sustainable Excellence

**Academic Excellence**
- Program Review and Rationalization
- Degree/Certificate Market Analysis
- Academic Productivity

**Revenue Enhancement**
- Pricing flexibility
- Long-term Enrollment Strategy
- Auxiliary Operation Rationalization
- Development Opportunities

**Future Academy**
- Research & Creative Works
- Outreach & Engagement
- Student Success

**Resource Utilization**
- Data Driven Allocation Models
- Reserve Practices & Policies
- Implement 5 Year Financial Plan

**Operational Excellence**
- Expansion of Enterprise Services
- Organizational Consolidation
- Streamline Process through Functional Efficiency
Key Initiatives Update

- What has already been done:
  - Improved capital planning process
  - Optimized investment and debt strategies
  - Changed retiree medical plan
  - Implemented non-personnel reductions (cell phones, travel, fleet, membership dues, etc.)
  - Streamlined administrative roles and structures

- In-flight initiatives:
  - Administrative review
  - Academic program review
  - Five year financial plan and accountability model
  - Space utilization improvements
  - Strategic resource allocation and costing models
  - Strategic enrollment management

- On the horizon:
  - Benefits program and costing evaluation
  - Rethinking philanthropy strategies
  - Asset monetization and outsourcing of non-core functions
  - Tuition strategy
  - Enhancement of online and distance learning
Next Steps for Budget

- Units finalizing FY 2019 budgets
- Development of five year financial plans
- Present campus budgets to the board in June for approval