The budget planning and development process at the University of Missouri System is iterative in nature and begins each fall. The annual budget cycle is described in the chart that follows. April is the time in the cycle when preliminary budget planning information, including the revenue and cost drivers, is brought to the Board for information and discussion. In June, the budget is brought to the Board in summary form by campus and fund type for approval.

**University Budget Overview**

The total University of Missouri System budget is approximately $3 billion. The University’s budget is comprised of several different component parts whose budget is driven by a different set of planning parameters based upon their purpose and revenue streams. These components are shown in the following chart.
Operations is the largest component of the University’s revenue budget at 39%. The operations fund is where the majority of the University’s instructional and public service activities are budgeted and accounted for. It is funded primarily by tuition and fees and state appropriations for operations. The planning assumptions and cost drivers for the operations fund will be discussed in detail further in this document.

Hospital Operations total about 25% of the University’s revenue budget. It is comprised of the combined clinical operations of MU Hospitals and Clinics, Ellis Fischel Cancer Center, Columbia Regional Hospital, and the Missouri Psychiatric Center.

Self Funded Activities are self-supporting activities that provide services primarily to students, faculty, staff, and patients. These collectively comprise 23% of the University’s revenue budget. Self-funded activities include service operations, continuing education, self-insurance funds, and auxiliary enterprises such as housing and dining, bookstores, student recreation centers, student unions, MU University Physicians, intercollegiate athletics, and parking. Service operations provide services primarily to other parts of the University while the purpose of auxiliary enterprises is to support and enhance the educational experience and mission of the University.

Service operations and auxiliary enterprises are funded primarily by fees charged for services or goods provided to their customers. Fees and rates are set at a level that will fully fund the activities over the long term. Thus, current operations must generate a sufficient operating margin to cover required investment in repair, maintenance, and replacement of facilities and equipment. In February, the Board approved FY16 rates for the housing and dining auxiliaries and the required student fees that support student unions and recreational facilities.

Restricted Operations total about 9% of the University’s total revenue budget. These funds are restricted in use by a third party. Examples include grants and contracts, gifts, and endowment spending distributions. Grants and contracts are comprised of federal grants, federal Pell grants, state grants, and other grants and contracts. The annual budget amount is an estimate of the annual receipts and expenditures collectively of thousands of individual grants and contracts that may extend over several years. Each individual budget is approved by the granting agency.

Loan, Endowment, and Plant funds are about 4% of the University’s revenue budget. Endowment fund revenues are driven by the Board’s asset allocation policy and market performance (as well as new gifts) and expenses are driven by the payout policy. Plant funds are used to record current and future investment in capital assets. The resources that fund future plant fund investment come from the various operating budgets and are transferred into the plant fund, with the exception of major capital projects, which the Board approves individually. Because most of the expenditures in the plant fund are capitalized, the primary expenses are depreciation and interest expense.
**Operations Budget Review**

As previously discussed, the approximately $1.2 billion operations budget is where the majority of the University’s instructional and public service activities occur. Major **funding sources** for the operations budget are net tuition and fees and state appropriations which combined together contribute about 87% of the total revenue. Over the past decade there has been a ten percentage point shift in contribution rate away from state appropriations to net tuition and fees.

Net tuition and fees contribute 51% of the operating budget revenues. The primary drivers for **net tuition and fees** are:

- fee rates approved by the Board in February
- changes in enrollment and student mix (including student level and residency)
- changes in unrestricted student aid

The campuses currently estimate an increase of approximately $28 million in net tuition and fee revenue from a combination of rate increases, new fees being assessed, and changes in enrollment and student mix. This includes new fees for the UMSL Recreation and Wellness Center and the Optometry building that will be assessed in FY2016.

State appropriations is the second major revenue driver. Based on the Governor’s recommendation, at this time, we anticipate an increase in our core operating appropriation of approximately 1.3% or $5.7 million. New state funds will be allocated strategically by the President.

On the expense side, the primary cost area is compensation. Compensation expenditures account for 78% of the total expenditure budget. Current campus planning is targeting merit increases of about $12.5 million or roughly 1.8% of the salary base; with much of the funding coming from reallocations within campus units. The cost including benefits would be approximately $17 million across the four campuses and system.
In addition to compensation there are two other key cost drivers. The first is increased costs of operations including increases in insurance, utilities, debt service, library acquisitions, information technology, opening new buildings, and other general costs of operating the campuses. Current estimates for these types of cost increases is approximately $14 million; the second is finding resources to make strategic investments in the institution to advance the campus and system strategic plans. This challenge includes identification of lower priority activities that can be reduced or eliminated to provide funding to invest in higher priority and more strategic initiatives. Campuses are currently working through these challenges in the budget process.

It is important to remember that budget development at the University of Missouri System is an iterative process and we are still early in the FY16 process. Enrollment projections and other revenue estimates will continue to be refined through the spring. Expenditure plans and reallocation decisions will also be refined as choices are made about the best use of institutional resources. It is also noteworthy that the current budget planning process is driven by the campuses’ and the System’s strategic plans. New state appropriations are allocated in support of those strategic plans, not on any type of historical basis.
University of Missouri
Board of Curators
April 9, 2015
Finance Committee

Fiscal Year 2016 Budget Status
Budget Timeline – Budgeting is an Iterative Process

- **Dec.**
  - Board Reviews Tuition and Fee Recommendations and Budget Drivers for FY2016

- **Jan. & Feb.**
  - Board Approves FY2016 Tuition and Required Fees, Supplemental Fees, and Housing and Dining Rates. Budget Drivers Discussed

- **April**
  - Preliminary Budget Status Update

- **June**
  - Board Approves FY2016 Operating Budgets

- **July**
  - Board Approves Appropriations Request for FY2017
FY2015 Total Budget by Fund Type - $3 Billion

- **Operations**: $1,189.4 million, 39%
- **Hospital Operations**: $759.3 million, 25%
- **Self Funded Activities**: $692.7 million, 23%
- **Restricted Operations**: $264.4 million, 9%
- **Loan, Endowment & Plant**: $128.2 million, 4%

Operations is where the majority of instructional & public service activities are budgeted.
FY2015 Operations Fund Revenues: $1.19 Billion

- Net Tuition & Fees: 50.8%
- State Appropriations: 35.9%
- Other Income: 13.3%
- Other Income includes gifts, endowment & investment income, federal appropriations, & miscellaneous.

FY2015 Operations Fund Expenditures: $1.16 Billion

- Salaries & Wages: 59.6%
- Benefit Expense: 18.3%
- Other Expenses: 22.1%
Governor’s FY2016 budget recommendation includes an approximate 1.3% increase in our core state appropriation, or $5.7 million.

Tuition and fee rates approved by the Board in February combined with changes in enrollment and student mix will contribute about $28 million or 4.6% of the net tuition and fees base, including new facility fees at UMSL.

Other income is anticipated to be relatively flat or slightly down.
The campuses are targeting merit increases of approximately 1.8% of the salary and wage base funded largely from reallocations.

The flat benefit rate will remain unchanged at 27.72% of benefit eligible salary.

Increases in operations’ costs such as insurance, utilities, debt service, maintenance and repair, etc. is approximately $14 million.

The campuses are targeting $15 million for strategic investments.

Reallocations are currently targeted at about $20 million.
Fiscal Year 2016 Operating Budget Status

Questions