FY19 Operating Budget

University of Missouri Board of Curators
Finance Committee
June 21-22, 2018
The FY 2019 Budget
## Annual Budget Cycle

<table>
<thead>
<tr>
<th>Month</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>July</strong></td>
<td>Board approved FY19 State Operating and Capital Appropriation Requests</td>
</tr>
<tr>
<td>December</td>
<td>Budget assumptions developed for FY19 tuition decisions</td>
</tr>
</tbody>
</table>
| **February** | Budget assumptions were refined  
Board approved FY19 housing and dining rates                     |
| **April** | Budget assumptions continued to be refined  
Board reviewed preliminary operations budget assumptions and tuition and fee rates |
| April/May | Budgets are developed and entered into system  
Board approved FY19 tuition and fees                                 |
| **June**  | Budgets are finalized  
Board approves FY19 Operating Budgets                                         |
## FY19 All Funds Budget
### University of Missouri System

<table>
<thead>
<tr>
<th>FY19 Revenue Budget</th>
<th>MU</th>
<th>MUHC</th>
<th>UMKC</th>
<th>Missouri S&amp;T</th>
<th>UMSL</th>
<th>UM System/UWide</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Tuition &amp; Fees</td>
<td>$244</td>
<td>$0</td>
<td>$132</td>
<td>$80</td>
<td>$72</td>
<td>$0</td>
<td>$527</td>
</tr>
<tr>
<td>State Appropriations</td>
<td>208</td>
<td>0</td>
<td>74</td>
<td>50</td>
<td>56</td>
<td>22</td>
<td>410</td>
</tr>
<tr>
<td>Sales, Services &amp; Patient Rev</td>
<td>485</td>
<td>1,013</td>
<td>78</td>
<td>25</td>
<td>19</td>
<td>26</td>
<td>1,646</td>
</tr>
<tr>
<td>Gifts, Grants &amp; Contracts</td>
<td>283</td>
<td>1</td>
<td>75</td>
<td>47</td>
<td>49</td>
<td>1</td>
<td>455</td>
</tr>
<tr>
<td>Other Income</td>
<td>96</td>
<td>3</td>
<td>21</td>
<td>12</td>
<td>8</td>
<td>48</td>
<td>188</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$1,316</strong></td>
<td><strong>$1,016</strong></td>
<td><strong>$379</strong></td>
<td><strong>$213</strong></td>
<td><strong>$205</strong></td>
<td><strong>$96</strong></td>
<td><strong>$3,226</strong></td>
</tr>
</tbody>
</table>

(Dollars in Millions)
Other Funds Overview

- Auxiliary and other self-supporting units are required to expend within the revenues generated, including funding their capital reinvestment.

- Restricted expenditures are directed by donors or granting agencies, laws, and policies.

- Capital expenditures are approved by the Board through the capital plans and on a project-by-project basis for major projects.

- Endowment funds are invested and distributed according to Board policy.
FY19 Current Funds Budget

$3.1 Billion

Operations
$1,141 M
36%

Auxiliary Enterprises
$617 M
20%

Hospital Operations
$1,015 M
32%

Restricted Current
$293 M
9%

Other Unrestricted
$81 M
3%
Focus on the Operations Fund Budget

• Operations Fund is 35% of the total budget

• Operating state appropriations and tuition and fees are recorded in the operations fund

• Instruction, institutionally funded research and public service as well as the supporting services for the total budget are primarily funded from operations

• Operations Fund is the least restricted
## FY19 Operating Fund Budget

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>MU</th>
<th>UMKC</th>
<th>S&amp;T</th>
<th>UMSL</th>
<th>UM System</th>
<th>University Wide</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Tuition &amp; Fees</strong></td>
<td>$575</td>
<td>$246</td>
<td>$155</td>
<td>$88</td>
<td>$86</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>State Appropriations</strong></td>
<td>405</td>
<td>205</td>
<td>74</td>
<td>50</td>
<td>56</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>161</td>
<td>94</td>
<td>21</td>
<td>12</td>
<td>8</td>
<td>27</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,141</td>
<td>$545</td>
<td>$250</td>
<td>$149</td>
<td>$150</td>
<td>$38</td>
<td>$10</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>$877</td>
<td>$425</td>
<td>$183</td>
<td>$116</td>
<td>$115</td>
<td>$38</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td>252</td>
<td>127</td>
<td>56</td>
<td>39</td>
<td>26</td>
<td>(1)</td>
<td>5</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td>10</td>
<td>(14)</td>
<td>11</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Expenses &amp; Transfers</strong></td>
<td>$1,139</td>
<td>$538</td>
<td>$250</td>
<td>$156</td>
<td>$148</td>
<td>$38</td>
<td>$10</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>$2</td>
<td>$7</td>
<td>$0</td>
<td>($7)</td>
<td>$1</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

(Dollars in Millions)
A $100M challenge exists after the 2019 budget
Key Drivers of the Budget

- 2019 Projection: -56.9
- Tuition Change: 13.2
- State Approp: 24.2
- Compensation: 8.6
- Other Expense: 12.9
- 2019 Budget: 2.0
The future of the budget process: metric-based financial performance
Key to avoiding painful budget cycles is revenue growth

Successful organizations grow revenues faster than inflation.
Revenue must frame our decision-making

- When most of the revenue came from appropriations, financial performance was about controlling spend
  - The University’s entire model has been built around funding distribution and controlling spend
  - This budget was built on that model, and feels painful as a result

- This decade, the University’s revenue streams shifted to tuition being over half of the operating budget and growing
  - Necessitates the move from spending what you get to understanding how your spending impacts future revenues

- The University must grow revenues, increase productivity and manage costs

- Revenue growth will be the most critical to driving investment in the mission.
Financial performance and accountability must change to include revenue

- The term “investment” in the University’s culture MUST change
  - Does NOT mean SPENDING alone
  - Implies a RETURN that can be measured
  - As a public entity, not all investments will generate a positive dollar return, HOWEVER, the University needs positive returning investments for mission

- Move from allocation and spending to a metric-based approach
  - Leaders across all levels of the organization must understand how they generate revenue
  - Overhead units must also grow and shrink with changes in revenue, not immune to realities of inflows

- Decisions that alter our course are made every day, we need a model that reflects that

Leaders must feel accountable for revenue growth and productivity against it across all levels of the organization
Proposed Performance Metrics

Operating Margin

Revenue Growth

Spendable Cash to Debt (leverage)
How will the University operationalize this?

*Cascade targets throughout the organization…*

- At each level of the organization, there is joint accountability between finance and academics/operations to achieve the targets.
- Targets are set at the preceding level in the organization.
- Targets tied to the 5-year strategic and financial plan

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**Board sets system-wide targets for financial performance in conjunction with strategic plan**

**President and System CFO sets targets for four universities and health system**

**Chancellor and University CFO sets targets for university operating units**
What is the Board’s role?

- Hold the President and CFO accountable for performance
  - Support the decisions they make to course correct to achieve targets
- Stay at the right level and use accountability as the lever for action
- Focus time on challenging the organization to change and grow
- Support the implementation of the model:
  - FY 19: trial run of metric based model and building of reporting infrastructure
  - FY 20: first year of model, building of 5 year integrated plans
  - FY 21: integrated 5-year models with scenarios
Challenge to the Organization

GROW REVENUE!

- We can’t cut our way to greatness
  - But we can spend our way to bankruptcy if revenues don’t change
  - Necessary cuts are a result of the paradigm shift in revenues

- Past growth strategies will not work
  - State revenues will remain challenged, even with significant support we enjoy
  - Traditional tuition rates and enrollments subject to market forces

- New, paying students/learners and programs to serve them are the key to our future

- Focus on productivity while growing… if we want the best faculty we need the paying students to support them
Closing question:
What changes will we make to grow and thrive?