BOARD OF CURATORS
FINANCE COMMITTEE
SEPTEMBER 20, 2018

Financial Status Update
Key Themes

- Balance sheet remains strong but requires forward action
  - Benefits liabilities continue to grow
  - Should be leveraged to find margin to sustain mission

- Margins remain solid on consolidated – but inconsistent at the operating unit level
  - Healthcare continues strong performance
  - Growth and earnings weaker at urban campuses

- Overall financial performance remains strong – but the business model needs to change
  - Focus must shift to financial performance and revenue generation
  - $260 million in strategic funding serves as seed money for change
Growth of Liabilities remains in line with Assets
Debt has slowed while liquidity has grown
Benefit Liabilities now total 1.2 billion

- University implemented GASB 75, bringing the OPEB liability on the balance sheet (300M decrease in net position)

- Action taken on benefits:
  - Lowered discount rate from 7.75 to 7.20 on pension
  - Closed retiree insurance benefit plan
  - Moved to fully insured Medicare advantage plan

- However more action is necessary
The majority of net position is restricted
Liquidity grows in line with Expense
Mix of revenue continues healthcare shift

- State Approps
- Tuition & Auxiliaries
- Patient Care
- Grants & Contracts
- Other

2008:
- 12.5% State Approps
- 28.5% Tuition & Auxiliaries
- 19.3% Patient Care
- 10.8% Grants & Contracts
- 30.1% Other

2013:
- 10.8% State Approps
- 29.4% Tuition & Auxiliaries
- 13.9% Patient Care
- 34.8% Grants & Contracts
- 30.1% Other

2018:
- 8.3% State Approps
- 39.7% Tuition & Auxiliaries
- 11.4% Patient Care
- 30.1% Grants & Contracts
- 30.1% Other
Revenue is only growing in Healthcare

MU     UMKC     S&T     UMSL     MUHC
Overall cash margins remain stable

![Operating Cash Flow Margin Chart]

- **MU**
- **UMKC**
- **S&T**
- **UMSL**
- **MUHC**
- **Consolidated**

- **2018 Performance**
- **13-17 Average**
- **Moody's AA1 Median**

September 20-21, 2018
Balance Sheet strength differs by Unit

Liquidity to Operations

- 2018 Performance
- 13-17 Average
- Moody’s AA1 Median

MU | UMKC | S&T | UMSL | MUHC | Consolidated

MOOC | KANSAS CITY | ROLLA | ST. LOUIS
Why and how management of financial performance must change

▪ Moving from appropriations approach to earnings approach
▪ Revenue is everybody’s problem
▪ We all must understand the business model – focusing only on cost is not sustainable
▪ Moving from a spending approach to net revenue approach
  o Must understand revenue drivers and return on investment
  o Net revenue (margin) will generate needed investments in scholarships, research and other academic pursuits
▪ Managing to the net revenue ensures financial viability and support of the mission
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

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
Moving to shared financial performance

• Establish new accountability to shared performance goals amongst finance and academic/operational leaders
  - Significant incentives and consequences based on performance
  - Mission related performance metrics to be included
  - New delegations of authority for financial decision making

• Each university will have the flexibility to design and implement their own version of the model within the following parameters:
  - Definition of those accountable must occur from the campus level to the college level
  - Infrastructure will be built to support during FY 19
  - Definition & trial run will occur in FY20, with FY21 slated as first year of new accountability model
  - Data for metrics will be housed in a single warehouse with common definition across campuses
  - Metric choice will be agreed upon to allow for standardization of reporting
Initial metrics for accountability

System & Campus Level Metrics:

1) Operating Margin
2) Operating Revenue Growth
3) Leverage (spendable cash & investments to debt)
Project will consist of joint paths

- Performance Management: Redesign of the budgeting and financial performance monitoring processes

- Reporting: Building new reporting infrastructure to support the new management methodology

Biggest gap in current processes: Understanding of revenue generation by individual units
Questions and Discussion