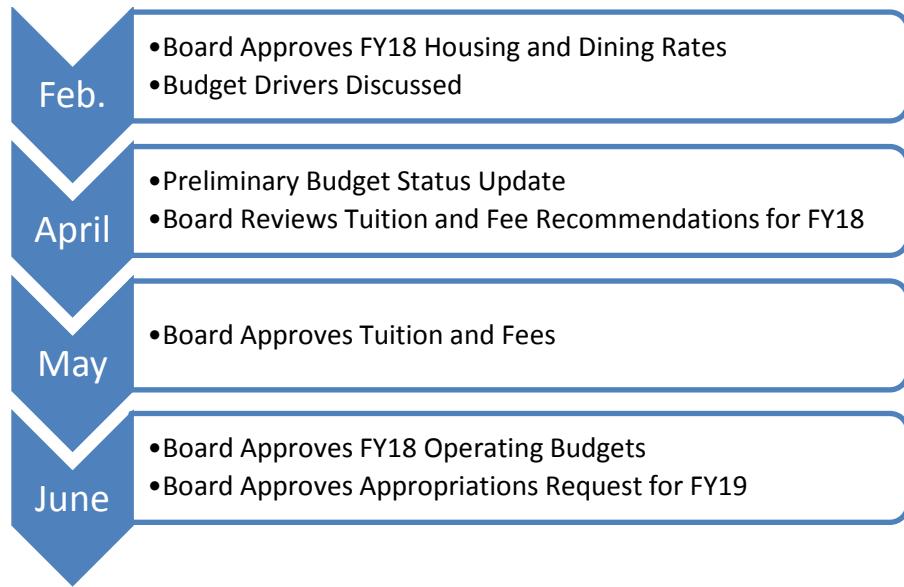


Review Fiscal Year 2018 Operating Budget Planning UM

A budget update discussing FY17 budget execution including withholdings and FY18 budget development was presented to the Board as an information item at the February Board of Curators meeting. The attached is intended to provide the Board with an update of the preliminary FY18 budget development process. In June, the budget is brought to the Board in summary form by campus and fund type for approval.

Board Impact on Budget Cycle

The Board's touchpoints in this process are detailed below:



Path to Excellence

President Choi has made a strong commitment to pursue a path to excellence that is defined by high-quality, affordable education for our students, innovative research and creative works that distinguishes our faculty, engagement with the citizens of Missouri to improve their lives and regional economic growth that is driven by careful planning and collaboration.

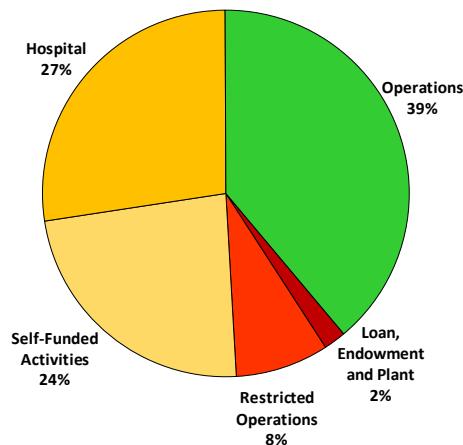
The University's renewed commitment to excellence will not be without its challenges especially in light of the current difficult budget situation. This period of significant budget constraints requires bold actions to become a stronger academic institution in both the short-term and long-term. The University of Missouri System's share of the state's current FY17 budget withholdings is \$37 million with the potential for \$57 million in permanent cuts in the Governor's proposed FY18 budget and the possibility of future reductions. Declining enrollment complicates these financial challenges. Addressing these revenue declines will require an overall budget cut between 8% and 12% throughout the University of Missouri

System. Before discussing the process to address these budget constraints, this paper will summarize the budget key components.

University Budget Overview

The total FY17 University of Missouri System budget is approximately \$3.1 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.

FY17 University of Missouri Budget



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. Planning assumptions and cost drivers for the operations fund will be discussed in detail further in this document.

Hospital Operations total about 27% of the University's revenue budget. It is comprised of the combined clinical operations of MU Hospitals and Clinics, Ellis Fischel Cancer Center, Women's & Children's Hospital, Missouri Orthopaedic Institute, and Missouri Psychiatric Center.

Self-Funded Activities are self-supporting activities that provide services primarily to students, faculty, staff, and patients. These collectively comprise 24% 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 FY18 rates for housing and dining auxiliaries.

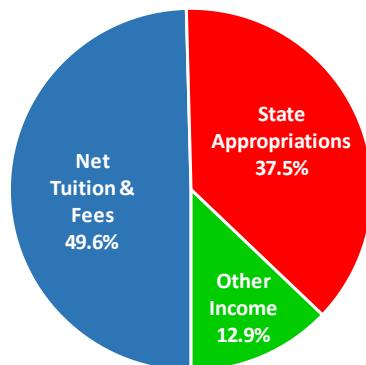
Restricted Operations total about 8% of the University's total revenue budget. These funds are restricted in use by a third party. Examples include grants and contracts, gifts, and endowment spending distributions. Grants and contracts are comprised of federal grants, federal Pell grants, state grants, 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 2% 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.

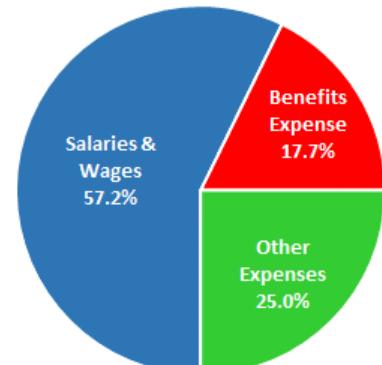
Operations Budget Review

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, 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.

FY17 Operations Fund Revenues:
\$1.2 Billion



FY17 Operations Fund Expenditures:
\$1.2 Billion



Net tuition and fees contribute 50% of the operating budget revenues. The primary drivers for **net tuition and fees** are:

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

The campuses currently estimate a decrease of approximately \$8.6 million in net tuition and fee revenue from a combination of rate increases, new fees, and changes in enrollment and student mix.

- The impact on tuition of the proposed rate increases is \$14.4 million, of which \$4.5 million is from resident undergraduate students.
- The impact on tuition from projected changes in enrollment and student mix could decline as much as \$30 million.
- The increase in supplemental fees is anticipated to be \$7.5 million from a combination of rate increases and changes in enrollment and student mix: MU ~ \$1.1, UMKC ~ \$1.5 M, S&T ~ \$4.1 M, and UMSL ~ \$0.8M.
- The net increase in student activity, facility, and service fees is anticipated to be \$0.3 million.

State appropriations is the second major revenue driver. Current budget planning is based on the Governor's budget recommendation. The University is still working with the legislature and Governor to finalize our state appropriations for FY18.

On the expense side, the primary cost driver is compensation. Compensation expenditures account for 75% of the total expenditure budget. Due to budgetary pressure of enrollment declines and uncertainty about state appropriations, only the UMSL campus is currently planning for merit raises. Budget plans include elimination of open positions from attrition and retirements where possible and layoffs.

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. The second is finding resources to make strategic investments in the institution to advance program excellence on the campuses.

The Process

Addressing these challenges will require an overall budget cut between 8% and 12% throughout the University of Missouri System. The effort will be shared by the campuses and the system. Reserve funds cannot solve structural problems created by permanent budget reductions. The financial challenges will not be addressed with across-the-board cuts. Therefore, the final budget cuts for units will vary depending on the programs of excellence that need to be supported. As part of this process, new investments will be made to enhance the programs of excellence that are not sufficiently funded.

Building on the progress made to date and to ensure that all units pursue an organized plan, President Choi has asked campus and system leadership to develop and execute both short- and long-term plans for budget reductions based on a set of guiding principles. The guiding principles will serve as our compass to protect activities and programs that best meet the mission of our University and provide maximum benefit to our communities, our state, and the nation.

The guiding principles are to:

- Challenge the status quo and long-held traditions that are impediments to change
- Make strategic decisions based on performance measures of excellence
- Protect programs of excellence for faculty research and creative works, student outcomes, community engagement and financial aid
- Be transparent, collaborative and accountable in making important decisions that affect the institution with input from faculty, students and staff

Beyond these immediate actions, it is also important to identify new revenue sources for the long-term to support our University and continue to make a compelling case for state investment.

Campus and system leadership will develop plans to address the budget cuts. Budget cuts will not be across the board and may include:

- Operating support
- Separation of staff and faculty
- Consolidation of units to reduce administrative costs
- Closing of centers and institutes
- Closing of degree programs with low enrollment
- Centralization or shared services for administrative operations including IT, HR, Finance, Research

As part of those cuts, campus and system leadership need to:

- Identify programs to be protected with supporting documentation that indicate excellence or are critical to the success of the University.
- Identify programs that we can no longer afford to support.
- Identify new programs or investments that can grow revenue as well as improve the University's performance measures or provide savings that can be reinvested in the academic mission.

Plans will consist of:

- Short-term plans of cuts towards the target that have already been identified and will be included in the UM System budget
- Long-term plans of the process, timeline and dollar targets that will be followed to identify and realize further cuts to fill the budget gap through the remainder of FY18

This collaborative process will create a stronger and more vital institution and continue the University's path to excellence. In June, we will be sharing more of the campuses short and long term budget plans and asking you to approve the FY18 budget.

April 27-28, 2017

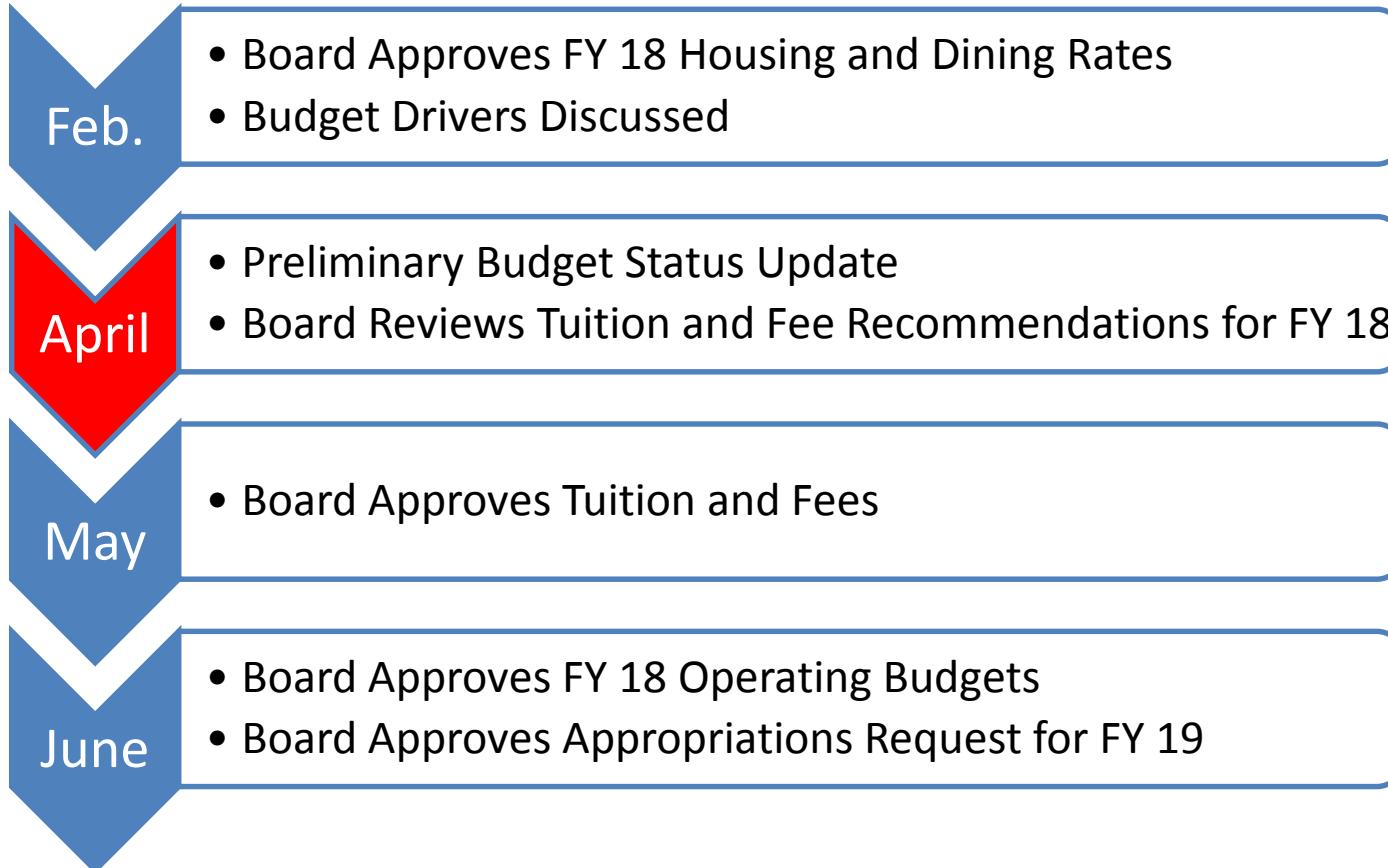
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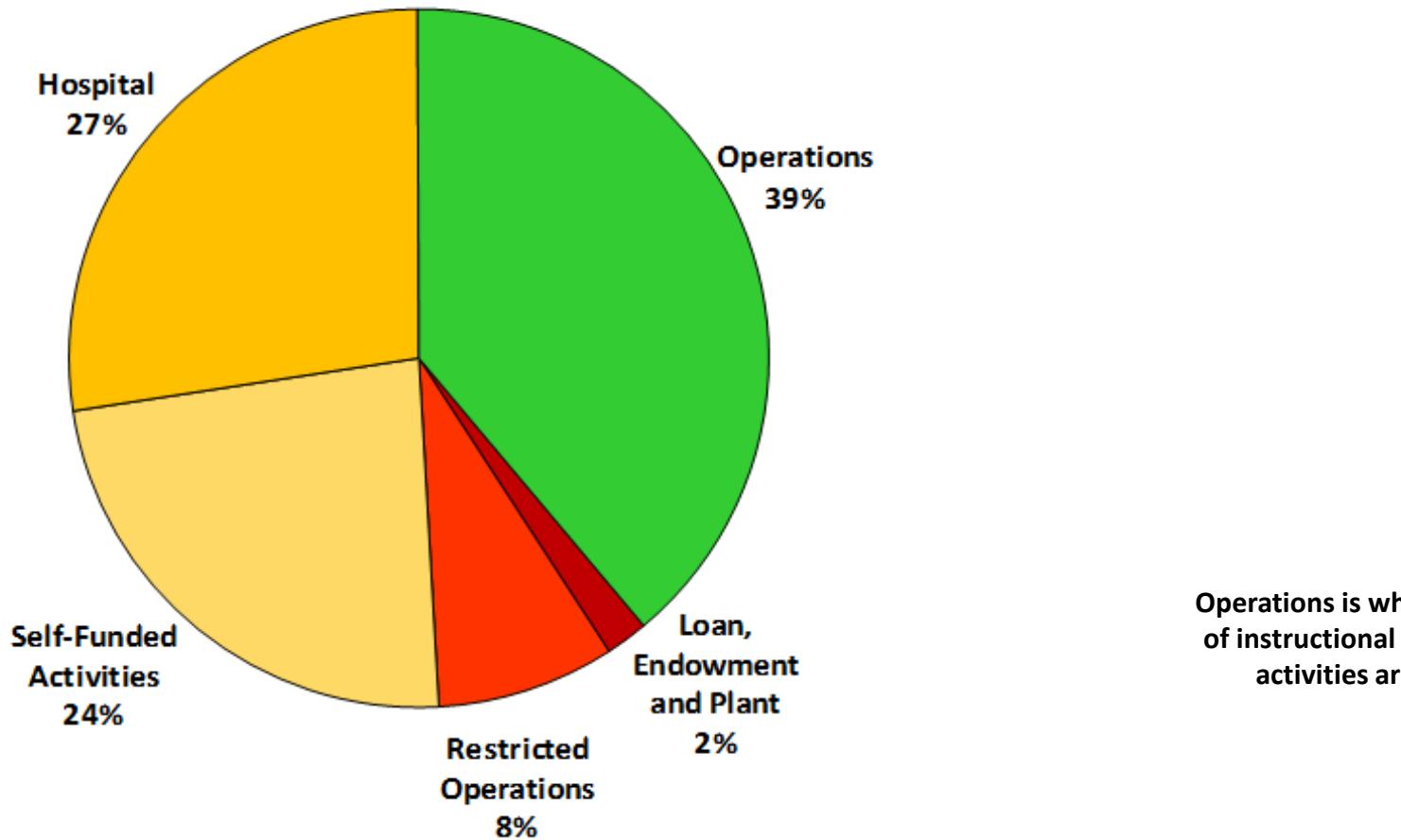
University of Missouri
Board of Curators
April 27-28, 2017
Finance Committee

Fiscal Year 2018 Budget Status

Budget Timeline – Budgeting is an Iterative Process



FY17 Budget - \$3.1 Billion



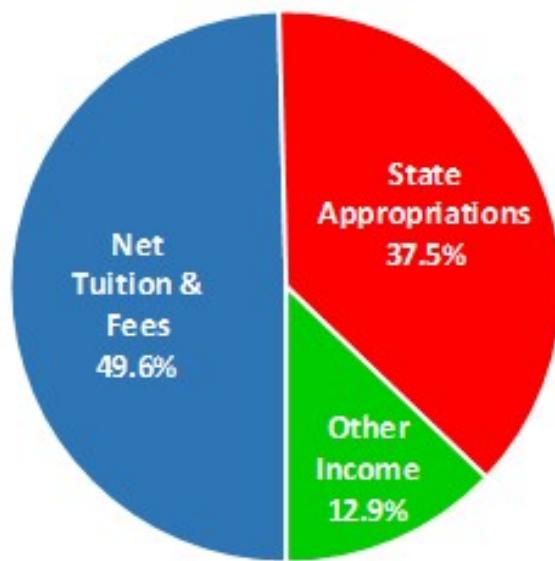
Focus on the Operating Fund

- Operating fund represents core mission funding, including state appropriations and tuition
- Auxiliary operations required to be self sustaining with capital investment and overhead return
- Restricted funds are directed by donors and external agencies – University cannot determine use of funds

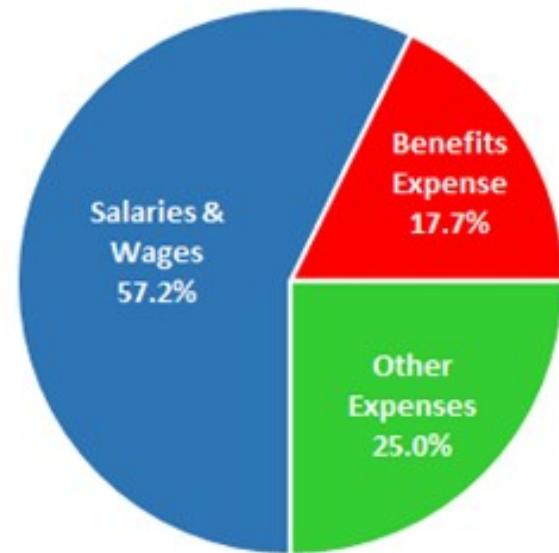


FY17 Operations Budget by Source & Use

FY17 Operations Fund Revenues:
\$1.2 Billion



FY17 Operations Fund Expenditures:
\$1.2 Billion



Other Income includes gifts, endowment & investment income, federal appropriations, & miscellaneous.



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Plan for FY18 Operating Fund Budgets

- Implement a plan to balance the 2018 budget including
 - 2017 withhold
 - 2018 final budget numbers from the state
- Because of fiscal prudence
 - the University can utilize reserves to weather unexpected downturns in the short-term
 - Provides opportunity for University to address issues over the long-term



Process to Address Budget Challenges

- Requested the campuses and System to find overall budget cuts between 8% and 12%
- Reserve funds cannot be used to address structural problems created by permanent budget reductions
- Financial challenges will not be addressed with across the board cuts



Guiding Principles

- Challenge the status quo and long-held traditions that are impediments to change
- Make strategic decisions based on performance measures of excellence
- Protect programs of excellence for faculty research and creative works, student outcomes, community engagement and financial aid
- Be transparent, collaborative and accountable



Process Requirements

- Identify programs to be protected that indicate excellence or are critical to the success of the University
- Identify programs we can no longer afford to support
- Identify areas for revenue growth or that provide savings that can be reinvested in the academic mission

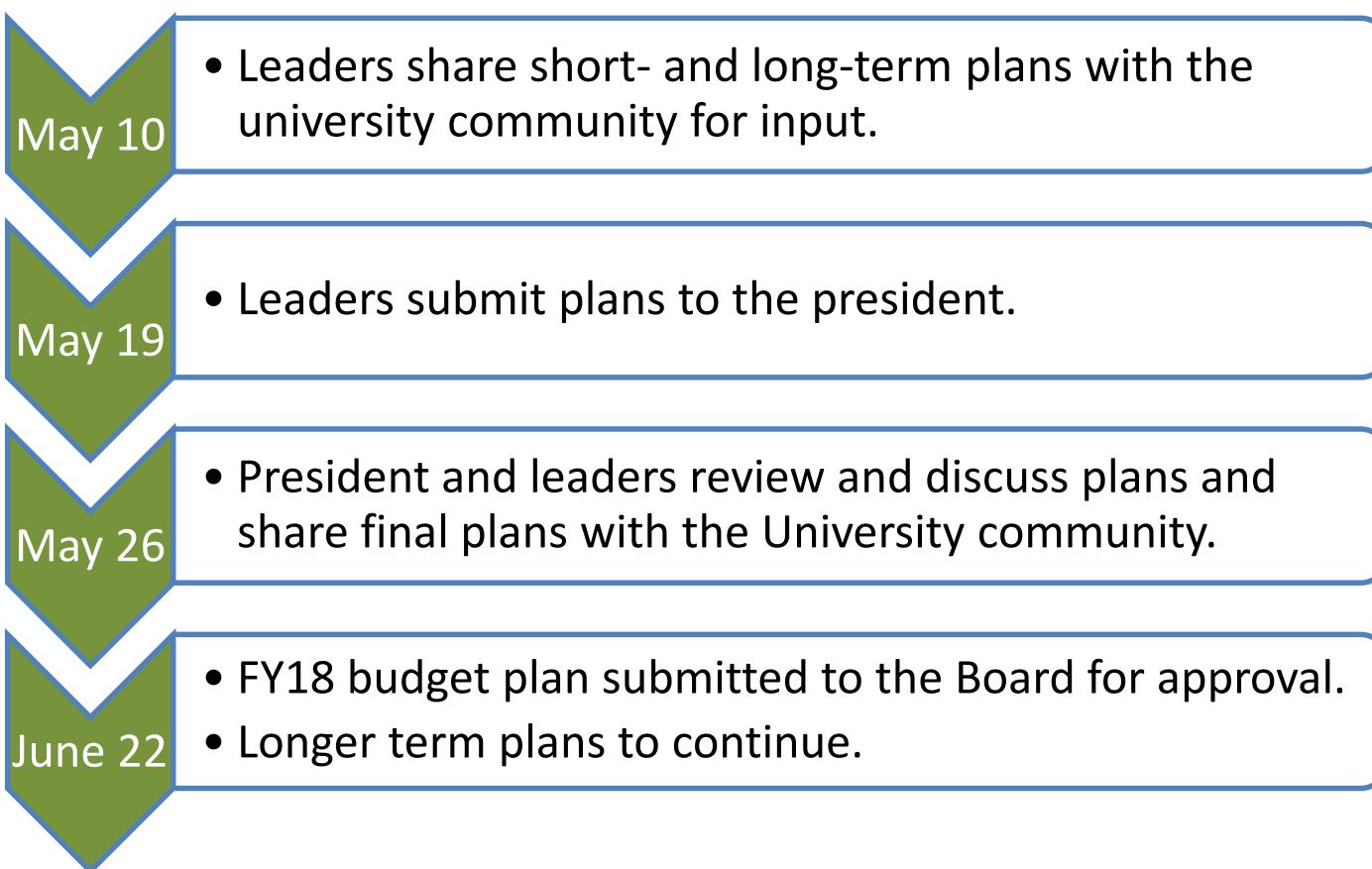


Plans will consist of:

- Short-term plans of cuts toward the targets that have already been identified and will be included in the UM System budget for FY18
- Long-term plans of the process, timeline and dollar targets that will be followed to identify and realize further cuts to fill the budget gap through the remainder of FY18



Timeline – FY18 Path to Excellence



Questions?



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