University Financial Health Plan
SUMMARY
10-24-07
Guiding Principles

• Continue to control expenses through rigorous examination, discipline and benchmarking
• Reduce expenses in a strategic manner
• Engage in open and honest dialogue with all stakeholders
• Achieve and maintain adequate reserves to build funds for strategic investment
• Invest in priorities that enhance academic stature
Continuing Pressures

- Lack of financial flexibility
  - One-time solutions exhausted
  - Two of three schools in deficit in FY08 are expected to be in deficit in FY09
- Reduced or no growth in research funding
- Impact of affiliation agreements
- Endowment payout higher than benchmarks
- Rising infrastructure expenses (e.g. utility and fringe costs)
- Major capital projects launched without firm sources of initial funding or continued support
- Debt capacity limitation
- Funding for advancement campaign
- Challenge of securing funds for competitive faculty and staff salaries, as well as for faculty start-up costs
Plan Goals

• Achieve financial health:
  - Stay within approved budget in FY08
  - Begin strategic investments in FY09
  - Begin to build reserves in FY11

• Develop strategic academic plan – to be completed in June ’08 – that is integrated with plans for finances, fundraising and infrastructure

• Create expectation and culture of accountability

• Continue emphasis on transparency at all levels

• Communicate with all stakeholders, and seek their insights as the process moves forward

• Forecast conservatively – act aggressively
Opportunities for Revenue Enhancement and Cost Containment/Reduction

Short-term actions, FY08
• Develop academic strategic plan
• Require accountability
• Identify and postpone non-critical salary/non-salary expenses
• Improve grant/contract management
• Clarify relationships with partners
• Enhance functionality of Financial/HCM reporting
• Postpone major capital projects

Long-term actions, FY09
• Enact academic strategic plan
• Publicize goals, milestones, and metrics of success
• Increase number of competitive research proposals
• Launch advancement campaign
• Evaluate possible advantages of outsourcing
• Explore potential for partnerships
Next Steps

- Develop and enact academic strategic plan
- Develop and enact new undergraduate enrollment strategy
- Align spending with academic strategic plan
- Launch advancement campaign
- Track closely all expense and revenue drivers in schools
- Analyze trends related to research productivity, space utilization, faculty hiring/attrition/salaries, and staff hiring/attrition/salaries
Contingency and Strategic Initiatives

FY12 and Beyond – build reserves for contingency and strategic investment:

– Level of reserves based on financial recovery plan and realistic assumptions

– Based on past practice and benchmarks, work towards a goal of 10% of the unrestricted operating budget
• Total net assets grew 10.2%, or $208 million in FY07

• Strong investment return of 20.1% on pooled endowment

• Debt decreased by $33.1 million – as of June 30th the line of credit was paid off.

• 15% of long-term debt refinanced at lower rates reducing the overall cost of debt to 4.2%

• Moody’s Investor Service and Standard & Poor’s reaffirmed the University’s investment-grade credit ratings
Conclusions, part 1

- FY08 ($10.5M) – total planned budget deficit
  CSE, WSOM, SOM in deficit

- FY09 ($7.2M) – budget projection
  CSE, SOM in deficit

- FY10 ($5.3M) – budget projection
  SOM in deficit

- FY11 budget projection
  All schools in balance

- FY12 and beyond – build reserves for contingency and strategic initiatives
  (target of 10% of unrestricted operating budget)
## Conclusions, part 2

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(millions)

*Includes Univ. Support/Use of Reserves*