

State of University Financial Health

August, 2009 Board of Trustees Retreat

1

State of University Financial Health

- Objective:
 - To look at the financial health of the University to determine strategic objectives over the next 5 years



2

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- Process:
 - Review facts that shape the reality of the University's financial health
 - Projections for FY 2010, 2011, 2012
 - Ask ourselves strategic questions



3

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- Bottom line:
 - We have serious financial challenges in the balance sheet, the operating budget, and the capital budget



4

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- Strategic Questions:
 - How do we balance improving financial health and strategic investment?
 - Growth -> what role should it play?
 - Cost reduction and reallocation -> what role should it play?
 - Strategic investment -> what role should it play?

State of University Financial Health Balance Sheet Issues

- Structural Deficit
 - One-time budget authority (carry forward) is in excess of expendable net assets; this situation has been exacerbated by investment losses and auxiliary deficit spending
 - Structural deficit as of May 28, 2009 - \$28.4 million

State of University Financial Health Balance Sheet Issues

- Ratios
 - Primary Reserve ratio measures financial strength by comparing expendable net assets to total expenses
 - Must increase expendable net assets by \$76.6 million to achieve KPMG's "advisable" ratio
 - Entire reserves are "allocated" to carry forwards
 - No "rainy day" funds; no reserve for 1-time strategic investments
 - Viability ratio measures debt relative to reserves
 - Current debt is high in relation to reserve levels
 - Limited ability to issue additional debt for strategic purposes

State of University Financial Health FY 2010 Budget Challenges

- The passage of House Bill 1 reduced the State Share of Instruction in the board approved budget by \$2.2 million
- The SSI loss as well as other 'known' and 'potential' impacts to the board approved budget are summarized below:

(in millions)	Total	Base	1 Time	Capital	OUF
Revenue:					
SSI	\$ (2.20)	\$ (2.20)			
Investment Income	\$ (0.75)				\$ (0.75)
Tuition Increase eff Winter Qtr	\$ 3.10	\$ 3.10			
Adm'l Summer 2009	\$ 0.60		\$ 0.60		
Siama Chtr / Jepson residual	\$ 0.75			\$ 0.75	
Expenses:					
ERP payouts	\$ 2.60		\$ 2.60		
Severance payouts	\$ 0.30		\$ 0.30		
OCICS - partial restoration	\$ 2.10	\$ 2.10			
Siama Chtr renovation shortfall	\$ 1.00			\$ 1.00	
Misc funding requests	\$ 0.20	\$ 0.20			
Net:	\$ (4.50)	\$ (1.40)	\$ (2.10)	\$ (0.25)	\$ (0.75)
Net without Tuition Increase:	\$ (7.60)	\$ (4.50)	\$ (2.10)	\$ (0.25)	\$ (0.75)

State of University Financial Health Looking Ahead...FY 2010 thru 2012

- Multi-year budget scenarios were included with the board materials
 - Revenue assumptions of 'optimistic' and 'worst case'
 - Expenditure assumptions based on 'Vision Ohio' and 'near flat'
- Risks to operating budgets include
 - State Share of Instruction
 - Economy's impact on state revenues and budget
 - FY 2011 – SSI appropriation declines by \$10.4 million
 - FY 2012 – SSI declines by additional \$11.4 million if federal stimulus funding is not replaced
 - Enrollment
 - Declining number of high school graduates in Ohio
 - Significant reduction in Ohio College Opportunity Grant (OCOG) program in FY 2010-2011
 - Affordability



9

State of University Financial Health Looking Ahead...FY 2010 thru 2012

(in millions)	Optimistic Revenue		Worst Case Revenue	
	FY 2011	FY 2012	FY 2011	FY 2012
Revenue	\$ 314.1	\$ 308.0	\$ 309.1	\$ 294.4
Vision Ohio Exp included	\$ 342.7	\$ 352.1	\$ 342.7	\$ 352.1
Net Transfers	\$ 8.4	\$ 8.3	\$ 8.4	\$ 8.3
Vision Ohio Exp Net Inc (Dec)	\$ (20.2)	\$ (35.8)	\$ (25.2)	\$ (49.4)
'Near Flat' Expenditures	\$ 330.9	\$ 334.0	\$ 330.9	\$ 334.0
Net Transfers	\$ 8.7	\$ 8.6	\$ 8.7	\$ 8.6
'Near Flat' Net Inc (Dec)	\$ (8.1)	\$ (17.4)	\$ (13.1)	\$ (31.0)

- The scenarios summarized above present a range of potential shortfalls
- FY 2012 assumes loss of federal stimulus funds
- Includes 3.5% increase in tuition each year



10

State of University Financial Health Strategies for Balancing the Budget

- Top line revenue growth
 - Enrollment
 - Other
- Cost containment / reduction / reallocation
 - Reallocation from low-priority to high-priority academic programs
 - What is optimal number of academic programs
 - Current number of degree programs is over 250
 - Identify Centers of Excellence
 - Review academic programs based upon
 - Quality
 - Productivity
 - Centrality
 - Other
 - Role of regional campuses



11

State of University Financial Health Strategies for Balancing the Budget

- Cost containment / reduction / reallocation (cont.)
 - Support services cost reduction strategies
 - Consolidation of OIT
 - Strategic procurement
 - Consolidation of HR
 - Business process reengineering
 - Reallocation from low-priority support programs
 - Role of athletics and other auxiliaries



12

State of University Financial Health Capital

- Alignment of capital budget with Centers of Excellence, Vision Ohio, and other strategic initiatives
- Maintain competitiveness
 - Housing
 - Academic facilities supporting Centers of Excellence
 - Deferred maintenance of \$250 - \$480 million for all campuses

State of University Financial Health Capital

- Sources of Funds for capital plan...
 - State capital for capital projects and basic renovation - \$25 million per biennium for Athens campus; - \$5 million for regionals
 - Advancement efforts secure gifts for capital projects
 - Housing and Dining rates provide funds for renovation of and reinvestment into those facilities
 - Airport capital includes property acquisitions and maintenance for runways - 5% 'local' match has been required for FAA funds

Preliminary 10 Year Plan (in millions)	Total Plan	State Capital	Gifts	Local Funds	Grants
Athens Campus	\$ 177.4	\$ 148.8	\$ 28.6	\$ -	
Housing & Dining	\$ 86.6			\$ 86.6	
Regional Campuses	\$ 17.6	\$ 17.6			
Airport (FAA grants)	\$ 10.0			\$ 0.5	\$ 9.5
Total	\$ 291.6	\$ 166.4	\$ 28.6	\$ 87.1	\$ 9.5

State of University Financial Health Discussion