UPDATE ON BUDGET PREPARATION

OVERVIEW

I. Background
   – *Historic environment*
II. Background
   – *Current environment*
III. Three phase approach
IV. Quick wins & 2017 projections
V. The 2017-18 budget
VI. The future
VII. Benefits to the UofL community

Background

Previously only modest risk in higher education budgeting

- Steady and secure state funding
- Rising tuition & fees
- Growth in research resources
- Little competition for niche resources
- Slow change

Background

Current environment characterized by risk and uncertainty

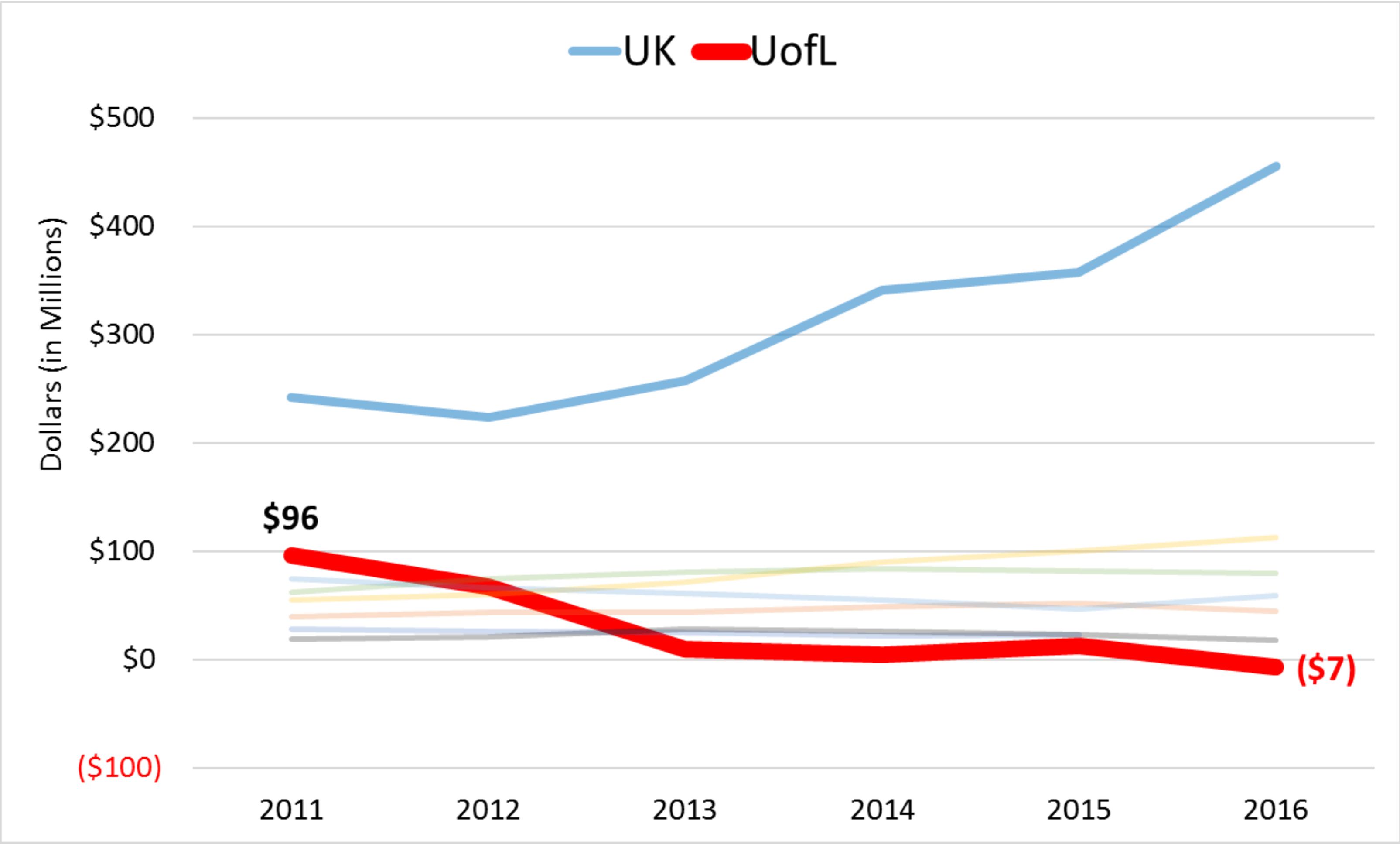
- Decline in state funding totals 32% cumulatively in KY since FY 2008
- Future State funding will be set by evolving performance based models
- Progressively higher tuition is a major impediment to student graduation.

Background

- Research resources are highly competitive and increasingly scarce
- Budgeting process is now more complex and requires real-time analysis and adjustment
- There is intense national competition for faculty, students and staff

Where we are now

Kentucky Public University Comparison
Unrestricted Net Position

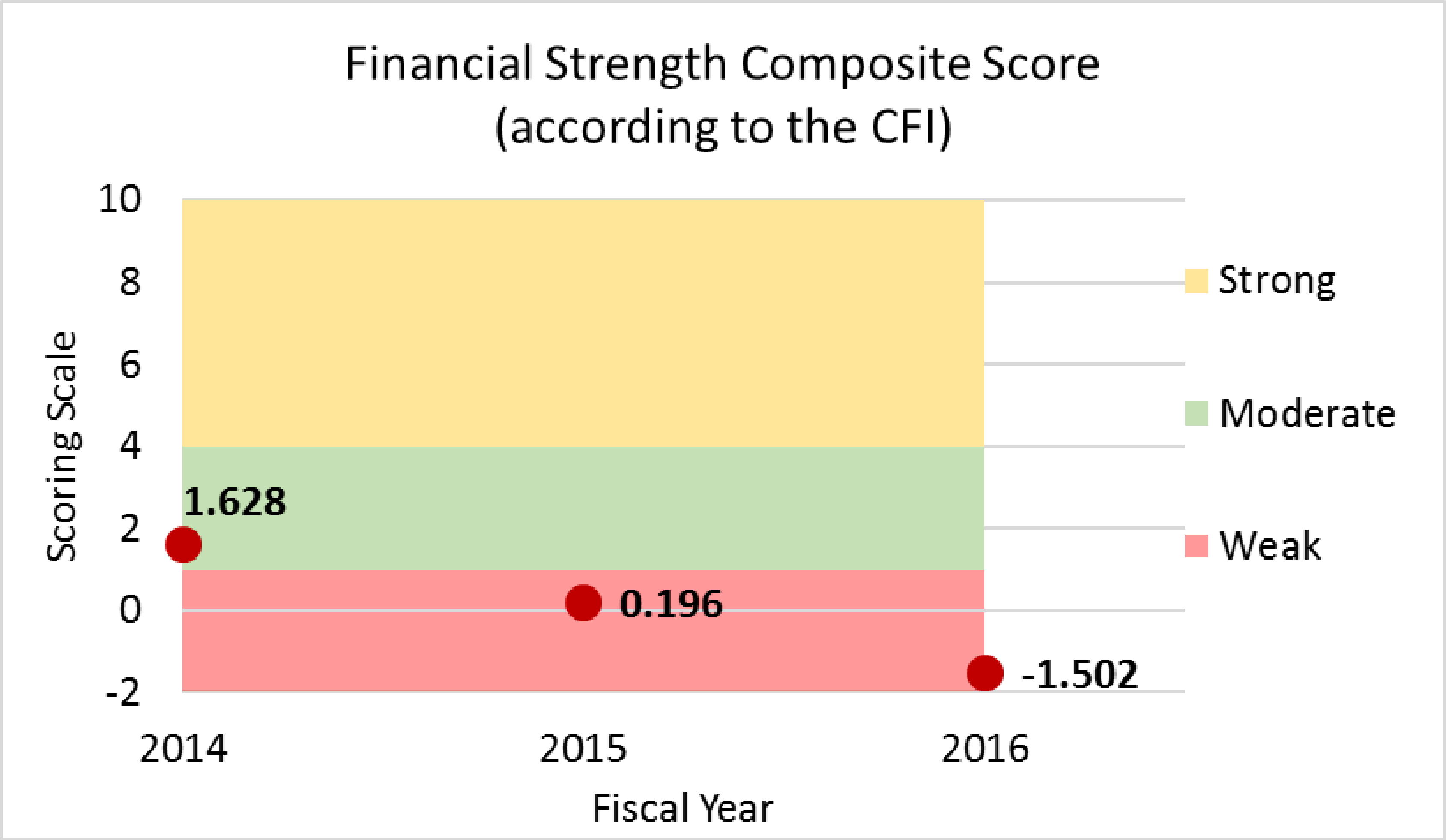


* Unrestricted net position measures the amount of funds available at year-end that can be used for any purpose.

Key Financial Ratios

Topic	Question	Ratio/Measure
Liquidity	Does the institution have enough unrestricted reserves to meet near-term cash needs?	Primary Reserve Ratio (PR)
Asset Performance	Are we getting a boost from our investments?	Return on Net Assets Ratio (RONA)
Debt Management	Do we have the ability to pay our debts?	Viability Ratio
Operating Results	Are we living within our means?	Net Operating Revenues Ratio (NOR)

UofL's Financial Scores (FY 2014 to FY 2016)



UofL’s Financial Scores (FY 2016)

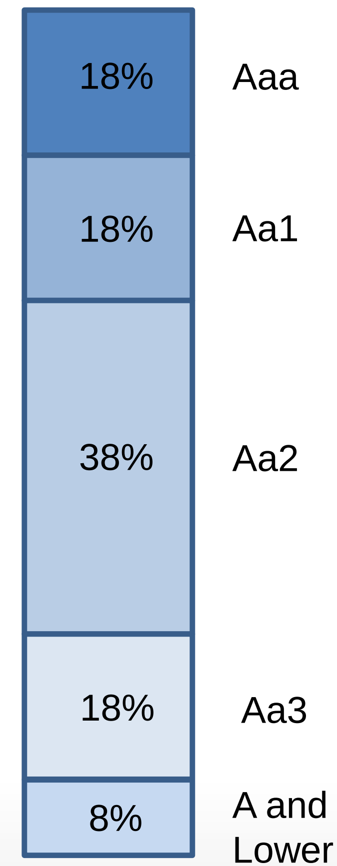
Topic	Measure	Threshold	Current UofL	Trend
Liquidity	Primary Reserve	>.40	0.25	⬇
	*UofL has liquid assets to cover 3 months' of expenses			
Debt Management	Viability	>1.25	0.5	⬇
	*UofL can satisfy half of its debts today			
Asset Performance	Return on Net Assets	>6.0%	**-6.1%**	⬇
	*UofL has fewer net assets than in prior periods			
Operating Results	Net Operating Revenues	>2.0%	**-20.0%**	⬇

U of L Downgraded by Moody's

Peer universities

School	Moody's Rating	Outlook
Indiana University	Aaa	Stable
Purdue University	Aaa	Stable
University of Iowa	Aa1	Stable
University of Tennessee	Aa1	Stable
UAB-Birmingham	Aa2	Stable
University of Kentucky	Aa2	Stable
University of South Carolina	Aa2	Stable
University of South Florida	Aa2	Stable
Virginia Commonwealth University	Aa2	Stable
University of Cincinnati	Aa3	Stable
Temple University	Aa3	Negative
University of Louisville	**Aa3**	**Stable**

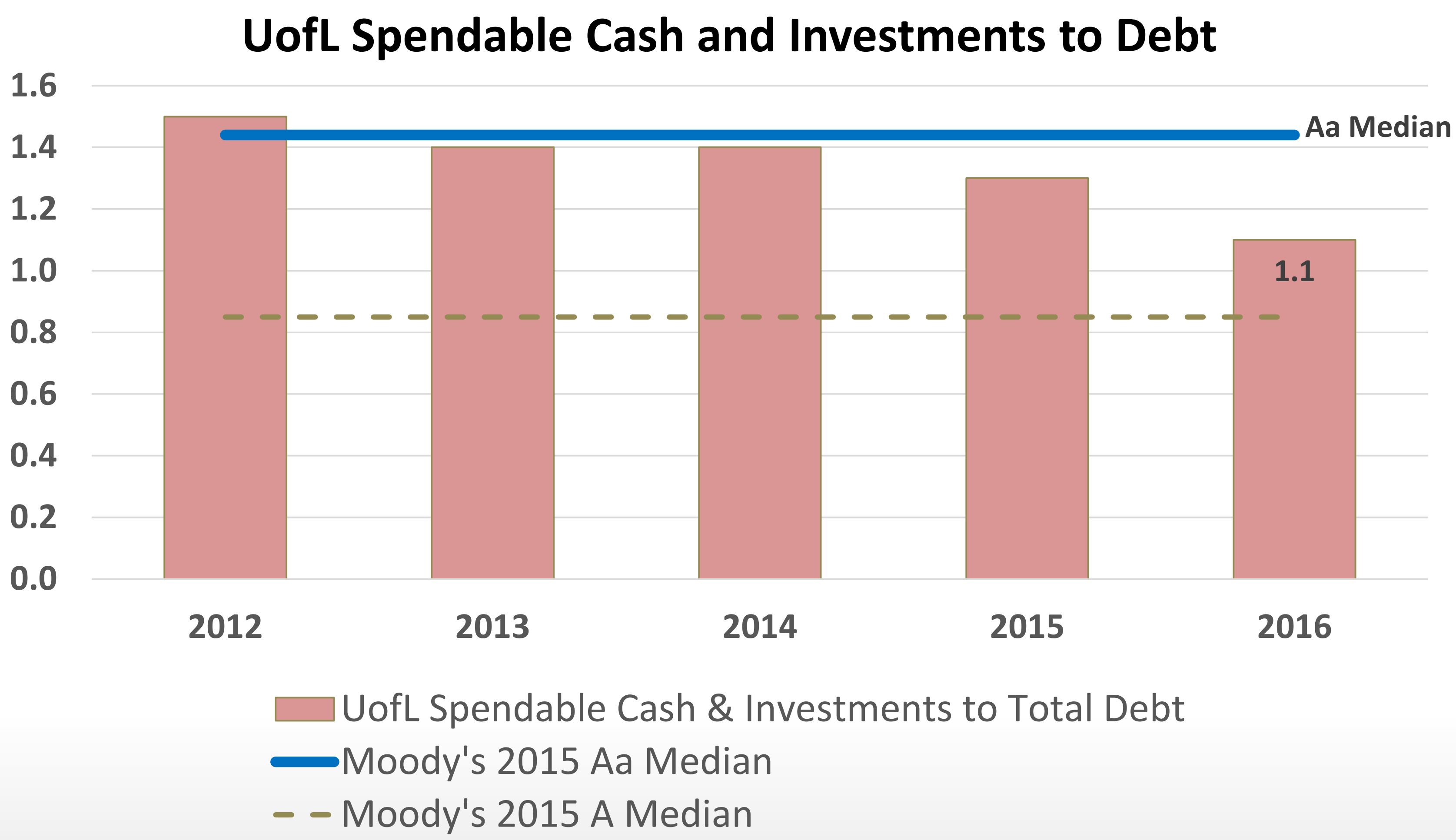
96 Universities



% of Total R1 Universities

UNIVERSITY OF LOUISVILLE

Improved Moody’s Rating Not Out of Reach



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Currently…

- While our actual revenues are below budget…
- Actual expenses are also below budget.

THREE PHASE APPROACH

I. CURRENT ACADEMIC YEAR

II. 2017-18 ACADEMIC YEAR

III. FOUNDATION FOR FUTURE DECISION MAKING

Year End 2016-17 Projections

- Current year budget revised to actuals
- Immediate expense reductions
- Active management of operations, AR and AP
- Salary Freeze

= *A positive year-end variance to budget is projected*

2017-18 Budget

- Tuition will be flat compared to current academic year
- ULF income is adjusted for foundation sustainability
- 2017 faculty promotion increases will remain
- 2017 salary equity funds will remain, but no second installment is possible next year
- Budget is based on current-year actual revenue and expenditures as opposed to budgeted amounts

2017-18 Budget

- Further draw-down of ULF and/or UofL reserves is not possible
- To balance the 2017-18 budget we must increase revenue or cut expenses to reduce expenditures by $48M (about 4% of a total budget of $1.2 billion)

2017-18 Budget

- General Fund projected revenue changes
  - Tuition revenue: -10.6 million
  - Tax Increment Fin.: - 6.6 million
  - F&A to General Fund: - 1.0 million
- General Fund projected cost changes
  - Anticipated GF costs: + 7.5 million
- Non-general fund: - 23.1 million

*** State Appropriation to be determined ***

How will this be achieved?

- Expenses will remain flat compared to current-year actuals
- Budgets will be revised to balance
- Salaries will remain flat
- Administrative/expense reductions will be increased

How will this be achieved?

- Administrative reductions, beginning with these cuts in Grawemeyer Hall:
  - Reductions totaling $3 million across administrative units
  - Significant staffing reductions in Office of the President
  - Elimination of two vice provost positions
  - Significant reduction in consultant contracts in the Office of Communications and Marketing
  - Entertainment for fund raising only
  - No lunch meetings or food for regular business meetings

TOP IDEAS
From the Deans/VPs Retreat

- New course offerings
- Summer courses
- Evening classes
- 80% FTE positions
- 10 month salary strategy
- Online course development
- Industry partnerships
- Hybrid classes

- Focused development
- Owning our own housing
- Incentive comp plans for clinical faculty
- Hospital management gains
- Fee for service tuition model
- Increase in masters programs/grad students
- Improved 4 year graduation rates
- Completion degree
- Innovative approaches to utilizing current space (e.g., leasing)

Education Advisory Board (EAB) Ideas:

- Capture high-growth student populations
- Applied and professional master's programs
- Customized corporate training
- Seniors enrichment activities
- Certificates
- Branding opportunities
- Differential tuition rates

The Future:

Revenue Opportunities

- Hospital operations/management
- Development
- Enrollment growth
- Student retention
- Industry/academic partnerships
- On-line education programs
- City/state/federal grant opportunities

Immediate Benefits to the UofL community

- Flat tuition rates
- No need for large-scale RIF's
- No need for programmatic closure
- Ability to re-establish reserves at UofL and at the ULF so as to be positioned for strategic investment and financial strength
- Ability for faculty/leadership to engage now in long term budget planning initiatives

Revised Spending Plans - Methodology

- The forecast is based on actual spending through December 2016 and then project the remaining 6 months based January 2016 through June 2016

- Adjust for any “known” change in spending patterns
    - FY 2016 merit increases remain in the budget
    - Salary equity increases remain in the budget
    - Going forward, faculty promotion increases will be added to the FY 2018 budget

Employment Guidelines

- Faculty and staff lines now vacant or being vacated for the rest of the fiscal year will be centrally held until reallocated.
- All current job postings have been suspended, pending review by the unit dean/head.
- Searches already in progress may continue only if the unit is prepared to absorb the CAR cost in the reduced FY2018 budget.
- The university will honor employment offers already in a candidate’s hands. If the offer is declined, the search is suspended; no offer may be made to a second candidate.