UMass FY21 Budget Planning

Board of Higher Education Meeting
June 23, 2020
Agenda

- UMass by the Numbers
- Financial Management
- FY21 Scenario Planning
- Cash Flow Modeling
- Solutions
UMass by the Numbers
UMass Finances: by the Numbers

While UMass is large in scale, it faces significant challenges in meeting its operational goals.

- **$3.5 billion** annual budget
- **75,000+ students** by headcount & **18,000** new graduates annually
- **$347 million** in UMass funded financial aid
- **$684 million** in annual research & development
- **$558 million** in state appropriation (not including fringe)
- **$148 million** average monthly payroll
- **$140 million** average monthly spend with over **17,000** vendors
- **24,000 employees**, **3rd largest** employer in MA
UMass Capital: by the Numbers

With over 330 buildings and 25.1 million gross square feet of space, UMass has a complex and extensive real estate profile that needs to be actively managed.

- $4.4 billion deferred maintenance backlog
- 25.1M Total GSF across the university
- 330 buildings across 5 campuses
- About 92,000 students, staff, and faculty
- 3,677 maintained acres
- $13 billion replacement value
About UMass: Total Revenue = $3.5 Billion

UMass has strong revenue diversity, including tuition, state support and research activity.

**FY20 Revenue By Type**
- Net Tuition & Fees 26%
- Grants 16%
- Auxiliary Enterprises 13%
- Sales & Service, Educational 1%
- State Appropriations 23%
- Independent Business Lines* 8%
- Other Operating 7%
- Other NonOperating 6%

*Independent business lines include Commonwealth Medicine and MassBiologics – independent components of the Medical School.

**FY20 Revenue By Campus**
- Amherst 39%
- Medical 26%
- Lowell 14%
- Dartmouth 8%
- Boston 13%

*About UMass: Total Revenue = $3.5 Billion
UMass has strong revenue diversity, including tuition, state support and research activity.*
About UMass: Total Expenses = $3.5 Billion

**FY20 Expenses By Type**

- Non-personnel: 29%
- Salaries & Fringe: 58%
- Debt Related: 12%
- Scholarships & fellowships: 1%

**FY20 Expenses By Campus**

- Amherst: 39%
- Medical: 26%
- Lowell: 14%
- Dartmouth: 8%
- Boston: 13%
About UMass: Total Enrollment = 75,064 Students

Enrollment in this graph is based upon student headcount. There are 66,005 Student full-time equivalents (FTEs), which are used for various financial projections throughout this report.
Financial Management
Financial Management through COVID-19

UMass has put the proper controls in place to help manage the harsh financial reality COVID-19 has created.

- COVID-19 is placing significant financial stress on higher education institutions by impacting major sources of revenue and creating uncertainty in enrollment.

- The ability for the University to deliver on its core mission demands structurally balanced budgets, which are essential for long-term financial sustainability.

- UMass operates according to industry best practices and continuously analyzes national benchmarks and peer trends.

- Strong financial oversight has been recognized by credit rating agencies despite the industry-wide negative outlooks resulting from the current COVID-19 crisis.

- Experience with in-year reporting and real-time data collection enable UMass to make appropriate budget adjustments throughout the fiscal year.

- UMass continues to develop high-impact efficiencies across the five campuses, including expanding its shared services initiative.
UMass Financial Accountability Framework

UMass has strengthened its long-term financial outlook by adopting a framework for financial accountability.

- The framework is based upon four key tenets:

1. **Oversight**: Independent and objective assurance that analyzes data, processes, policies and controls

2. **Internal Controls**: Standard processes designed to provide reasonable assurance regarding the achievement of objectives

3. **Transparency**: Reliable, timely information that is accessible and understandable

4. **Risk Management**: Systematic approach to identifying, assessing and managing risks across the organization
UMass Financial Accountability Framework

- Multi-year financial forecast
- Quarterly financial projections
- Monthly projections if needed
- Scenario planning
- Real time student tracking
- Standard FTE Reports
- Reserve Policy
- Capital Policy amended

- Key performance indicators
- Peer benchmarks
- A&F Executive Dashboard 1.0
- Trend analysis
- Annual Financial Report enhanced
- Financial reports on website

- Enables a more robust shared service organization

- Quarterly financial close
- Automated year end consolidation
- Unrestricted Net Asset reporting
- Improved student AR reserve procedure
- Cash flow reporting
- Cash flow forecasting model
- Centralized MMARS reporting

- Active and growing ERM program
- Engaging multidisciplinary/cross-functional subject matter experts system-wide
- Insurance as a mitigation strategy
- Health and Safety Council
- Travel Registry
- Risk-based decision-making
- COVID-19 Response

University of Massachusetts
Shared Services

The accountability framework has enabled the University to create a centralized, efficient and effective delivery model for procurement, accounts payable, treasury, insurance, legal counsel, and IT services across the University.

- Since 2013, efficiency and effectiveness (E&E) efforts have saved the University over $124 million in savings: actual spending reduced by $22.3 million, cost avoidance totaled $102.3 million.

- The Unified Procurement Services Team (launched in January 2020) is projected to reduce costs by $15 - $20 million in just the first 18 months.

- Shared services help the University:
  - Maintain access and affordability for students
  - Enhance quality of educational experience by optimizing resources
  - Invest in strategic priorities of the campuses

- Future planning for shared services includes continued analysis of payroll and time and labor to develop a future service delivery model.
Unified Procurement Services Team: Achievements since January

“Better, faster, cheaper”

**Process Enhancements (BETTER)**
- ~35% decline in weekly spend (over 2019 levels) driven by enhanced spend workflow controls
- System-wide policy and delegation of authority harmonization
- Supplier price concession initiative for the campuses
- Campus specific non-personnel cost optimization initiatives i.e. property leases

**Ease of Administration (FASTER)**
- 91% of requisitions converted to a PO in 1 day or less
- 83% of eligible early payment discounts captured
- ~15,000 cases received
- 94% of all cases closed
- 49,000 purchase orders
- 94,000 invoices processed

**Cost Discipline (CHEAPER)**
- 40% ($5.5M) of target $13.5M actualized via bids
- Identified $15M-$20M of savings in sourcing initiatives
- Over 80 ‘deals’ in the pipeline with system-wide savings in play currently:
  - Technology = $700K
  - Energy Sourcing = $3.4M
  - Property Leases = $0.7M - $1.3M

University of Massachusetts
FY21 Scenario Planning
FY21 Planning

- UMass will implement a structurally balanced budget
  - Structural balance ensures the long-term financial sustainability of the University
  - In FY21, UMass will balance its budget and achieve at least a 0% operating margin
  - Some one-time revenue sources, such as federal CARES Act funding, may be used in FY21 to cover limited expenses based on funding source and restrictions
  - Use of one-time solutions must be limited as UMass continues to analyze which revenue impacts are likely to be long-term beyond FY21

- Assumptions made in the five-year financial forecast, published in December 2019, and the University’s FY21 state budget request are being revised

- Scenario planning is underway for a variety of different revenue and expense impacts
## Scenario Planning: Potential Revenue Impacts

Scenarios shown here are independent levers for scenario modeling purposes only.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Brief Description</th>
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<tbody>
<tr>
<td>A</td>
<td><strong>Tuition:</strong> Out of state &amp; grad</td>
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<tr>
<td>B</td>
<td><strong>State appropriation:</strong> 5%, 10%, 20% reduction</td>
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<tr>
<td>C</td>
<td><strong>Enrollment:</strong> 5%, 10%, 15% reduction</td>
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<tr>
<td>D</td>
<td><strong>Enrollment:</strong> No international</td>
</tr>
<tr>
<td>E</td>
<td><strong>Hybrid Learning:</strong> 50% housing &amp; dining for fall semester</td>
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<tr>
<td>F</td>
<td><strong>Remote Learning:</strong> 0% housing &amp; dining for fall semester</td>
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Cash Flow Modeling
Seasonality of UMass Cash Flow

The seasonality of cash flows in higher education creates periods where cash inflows and cash outflows are mismatched.

- Cash receipts are strong at the beginning of the fall and spring semesters
- Cash receipts are low in the late spring and summer months
- Significant cash outflows occur in October and April as a result of debt service payments

Inflows and outflows are representative of the total University's cash receipts and disbursements
FY21 Scenarios – Cash Forecasting

Cash flow monitoring and forecasting is a critical component of the University’s management strategy, enabling the ability to effectively manage through the current crisis.

- The COVID pandemic does not come with a timeline for when things will return to normal; preserving liquidity* is critical during these uncertain times.
- UMass does not have the statutory authority to backstop liquidity with a line of credit.
- Revenue scenarios have been modeled to analyze impact on liquidity.
- The University FY21 Budget will implement solutions to reduce spend and will be balanced.
- UMass targets an industry standard of at least 90 days of liquidity as a benchmark.

Days Cash Facts

90 days = industry standard
60 days = maximum monthly outflow
34 days = average monthly spend

*Cash plus investments with maturities of less than one year that are available for operations.
FY21 Solutions

Plans to mitigate impacts to the FY21 budget and achieve balance include the following solutions:

- **Non-personnel spending reductions**
  - 35% decline in weekly spend
  - $15M-$20M in estimated savings
  - 80+ deals in progress for system savings

- **Prioritizing capital expenditures**
  - 12% of the University’s $2 billion capital plan has been placed on hold

- **Comprehensive workforce strategy**
  - Including general and job-specific furloughs, voluntary separation incentive program, salary reductions, and layoffs

- **State resources**

- **Continued efficiency & effectiveness measures**

- **Federal CARES Act**
  - Higher Education Emergency Relief Fund ($8.9M estimated for FY21, $23M total)
  - Governor’s Emergency Education Relief Fund ($51M for all segments of education, both public and private)

- **Debt refinancing opportunities**
FY21 Next Steps

- Continue analyzing various scenarios and developing solutions as more information becomes available.
- Balance the FY21 budget and achieve at least a 0% operating margin.
- Review FY21 budget with Board of Trustees on July 20 at rescheduled A&F Committee and full Board meetings.
- Work with campus leadership and trustees to implement the FY21 budget and actively manage progress throughout the fiscal year; additional solutions will be developed as needed.
- Continue exercising principles of the University’s Financial Accountability Framework to manage throughout the fiscal year.