

Budget Forum

Wednesday, June 12, 2013

EASTERN MICHIGAN BUDGET FORUM – JUNE 2013

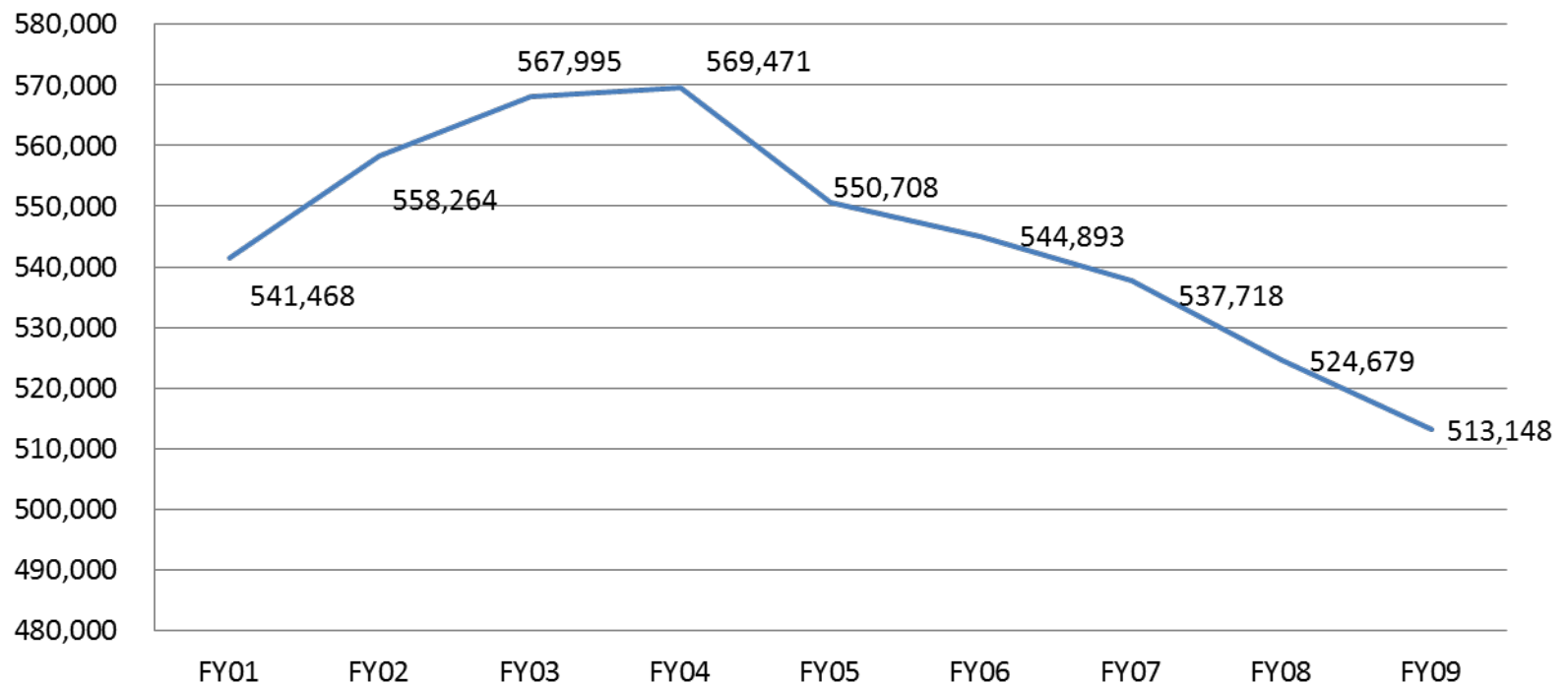
- Tenth in a series of budget forums and discussions with President Martin that began in the Summer of 2009
- Focus of budget forums is on Eastern's budget, financial position and external economic factors that are impacting us

Today's Topics

- A Look Back – Investing for Growth
- Current Financial Position – Moody's Review
- Fiscal Year 2012-13 – Budget Assumptions, Priorities and Outlook
- Fiscal Year 2013-14 - Budget Development and Considerations
- Q & A / Open Discussion

A LOOK BACK – INVESTING FOR GROWTH

- Eastern's Enrollment and Student Credit Hours (SCH) peaked in FY2003-04 then declined for five consecutive years through FY2008-09

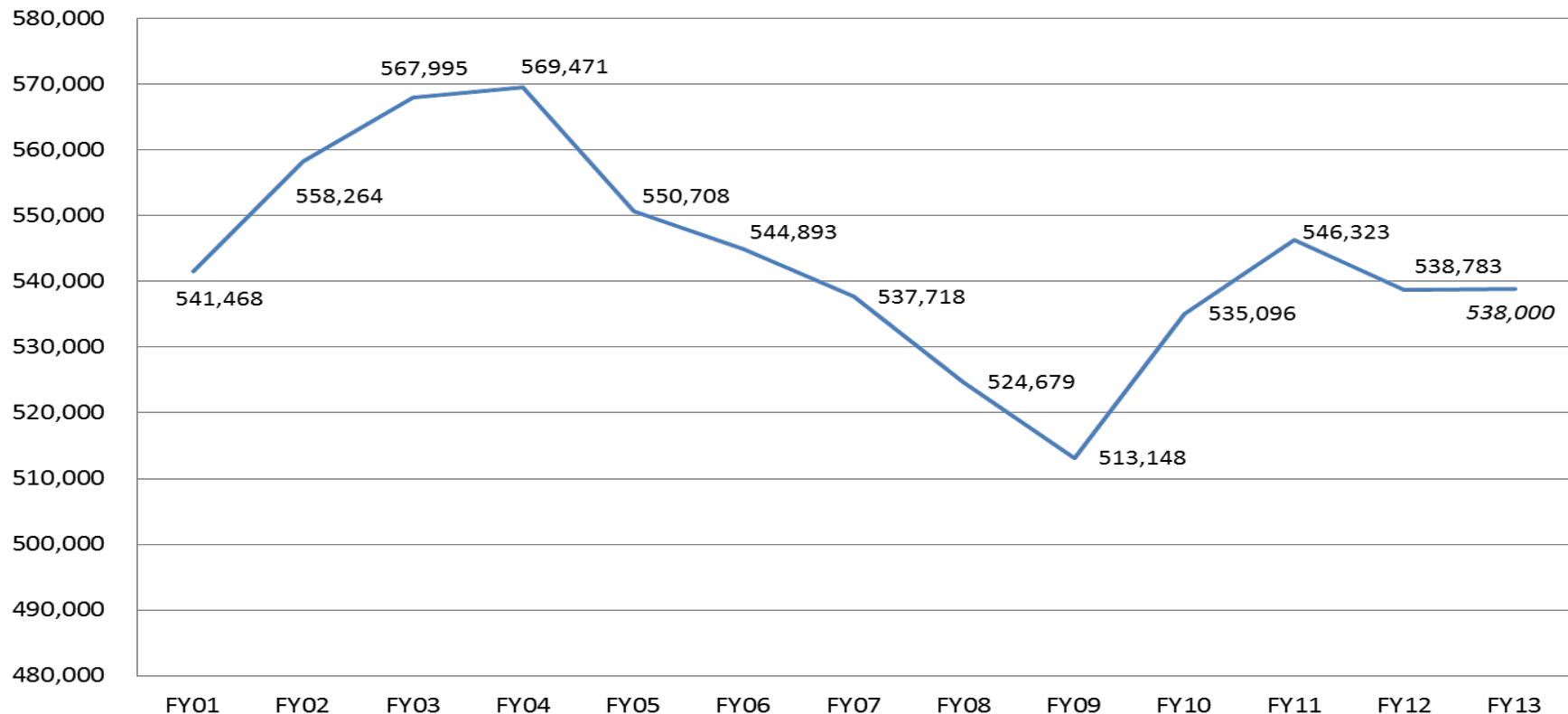


A Look Back – Investing for Growth

- First stabilizing, then beginning to grow enrollment a key 2008 priority
- Implemented strategy to aggressively invest in facilities and financial aid while continuing to provide students a quality education that's also affordable
- Investing in campus facilities - \$220M Capital Spending over Five Years:
 - Campus-wide investment – Science Complex addition; renovations to Pray-Harrold/other academic buildings, housing and other campus facilities; technology and infrastructure improvements
- Providing students a high-quality, affordable education:
 - Invested in new academic programs and student success
 - Administrative staffing reduced, faculty levels maintained
 - Increased University-sponsored financial aid by over \$14M (68%)
 - Increased tuition modestly, establishing Eastern as clear leader among Michigan's public Universities in tuition restraint

Current Enrollment and Outlook

- Enrollment and SCH have turned around and begun to grow.
- The demographics in Michigan are challenging, but continued growth in enrollment is achievable. Fall 2012 FTIAC class largest in a decade, academically strong and diverse - Fall 2013 tracking to date is encouraging.



Current Financial Position

- Capital investment in campus contributed to enrollment turnaround, but as expected, additional borrowing and use of reserves to fund investment has placed strain on Eastern's financial position and Balance Sheet
- Moody's Recent Review – Affirmed A1 Rating and “Stable” Outlook:
 - A1 rating (high end of single-A category) same as most of our peer institutions; S&P rates Eastern lower than peers

Moody's Analysis – Strengths:

- “Solid market position as regional public university with large enrollment base”
- “Healthy growth in net tuition revenue driven by tuition and enrollment increases”
- “Broad diversity of pledged revenues dedicated to debt service payments”

Moody's Analysis – Challenges:

- “High operating and financial leverage at the A1 rating level”
- “Economic challenges in the State of Michigan”
- “Weak demographic projections, expected decline in high school graduates in state”

Financial Position - Implications

- Campus facilities significantly improved, but more still needs to be done
- Eastern's capacity to issue additional debt or to use reserves to fund capital needs is limited
- Ongoing funding for capital included in current annual budgets not adequate to meet the remaining needs
- As result, going forward, Eastern will need to:
 - Increase fundraising available for campus capital projects
 - Expand the funding available for capital in annual budgets by identifying and implementing operational process and efficiency improvements
 - Consider other funding structures including external partnerships

FY 2012-13 Budgets – Assumptions & Priorities

- Three Primary University Budgets:
 - General Fund Operating – \$290M (balanced revenues and expenses)
 - Auxiliary Op'g - \$41M (housing, dining, apartments, parking, 7 others)
 - Capital Expenditures - \$29M (as amended by BOR December 2012)
- Key Assumptions and Priorities reflected in FY2012-13 budgets:
 - 1% SCH growth, 3.95% tuition increase, 2.9% increase in state funding
 - 5% increase in students living on campus (to 3,600)
 - Increased operating funding for student advising, new academic programs, and for enrollment growth initiatives
 - Major capital project priorities included Rackham and Best Hall renovations, IT infrastructure and technology upgrades, Halle Library ARC restoration and Convocation Center

FY 2012-13 General Fund - Revenues & Expenditures

- Balanced Revenues and Expenditures - \$7.3M (2.6%) over FY2011-12 budget

<u>Revenue Budget</u> (millions)	<u>Amount</u>	<u>Pct of Total</u>
Tuition and Fees	\$ 212.2	73%
State Appropriation	66.5	23
All other revenues	<u>11.5</u>	<u>4</u>
Total GF Revenue	\$ 290.2	100%

<u>Expenditure Budget</u> (millions)	<u>Amount</u>	<u>Pct of Total</u>
Personnel Costs - Salaries	\$ 143.9	50%
Personnel Costs – Benefits	<u>53.6</u>	<u>18</u>
Total Personnel Costs	\$ 197.5	68%
SS&M	36.3	13
Financial Aid	35.4	12
Utilities, Debt Service, Asset Preserv.	20.1	7
All other expenses and transfers	<u>0.9</u>	<u>-</u>
Total GF Expense	\$ 290.2	100%

FY 2012-13 Budgets – Status and Outlook

- All funds/consolidated EMU – on track to budgets in total, no significant surplus/deficit expected after books closed in July and audited by Plante Moran

Anticipated Budget Performance Highlights and Story Line for Year

- General Fund revenues and expenses both about 1% below budget
- Auxiliary Funds better than budget reflecting strong housing occupancy (up 4% over budget and up 9% year-to-year) and similar increases in meal plans
- Grant and Contract awards up year-to-year – proposals submitted also higher
- Fundraising for year down from record level in FY 2011-12, but Endowment value higher reflecting strong portfolio investment returns for the year

FY2013-14 Budgets - Development and Considerations

- Board action on FY 2013-14 budgets, tuition & fees at June 18 meeting
- State's Higher Education Budget agreed by Legislature, but not yet final:
 - FY 2012-13 performance funding rolled into FY2013-14 base
 - Eastern's share of metrics-based performance funding for FY 2013-14 is \$800K, but is contingent upon a tuition increase of 3.75% or less
 - Including additional funding for MPERS, total year-to-year increase in state funding of \$1.1M (1.7%) -- if meet tuition restraint cap
- Considerations in developing the FY14 Budgets:
 - Implementing Strategic Plan successfully will require funding
 - Physician Assistant Program first cohort planned for May 2014
 - Continuing development of new academic programs and other enrollment growth initiatives remains a priority
 - Fall 2013 housing occupancy/demand will likely exceed current capacity
 - Technology improvements (classroom, wireless, IT infrastructure) and addressing critical deferred maintenance priorities for limited capital funds

Questions....Comments