Budget Forum

Wednesday, June 12, 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:
  o 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:
  o Invested in new academic programs and student success
  o Administrative staffing reduced, faculty levels maintained
  o Increased University-sponsored financial aid by over $14M (68%)
  o 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:
  o Increase fundraising available for campus capital projects
  o Expand the funding available for capital in annual budgets by identifying and implementing operational process and efficiency improvements
  o Consider other funding structures including external partnerships
• Three Primary University Budgets:
  o General Fund Operating – $290M (balanced revenues and expenses)
  o Auxiliary Op’ g - $41M (housing, dining, apartments, parking, 7 others)
  o Capital Expenditures - $29M (as amended by BOR December 2012)

• Key Assumptions and Priorities reflected in FY2012-13 budgets:
  o 1% SCH growth, 3.95% tuition increase, 2.9% increase in state funding
  o 5% increase in students living on campus (to 3,600)
  o Increased operating funding for student advising, new academic programs, and for enrollment growth initiatives
  o 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

### Revenue Budget (millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Pct of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and Fees</td>
<td>$ 212.2</td>
<td>73%</td>
</tr>
<tr>
<td>State Appropriation</td>
<td>66.5</td>
<td>23</td>
</tr>
<tr>
<td>All other revenues</td>
<td>11.5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total GF Revenue</strong></td>
<td>$ 290.2</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Expenditure Budget (millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Pct of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Costs - Salaries</td>
<td>$ 143.9</td>
<td>50%</td>
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<tr>
<td>Personnel Costs – Benefits</td>
<td>53.6</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total Personnel Costs</strong></td>
<td>$ 197.5</td>
<td>68%</td>
</tr>
<tr>
<td>SS&amp;M</td>
<td>36.3</td>
<td>13</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>35.4</td>
<td>12</td>
</tr>
<tr>
<td>Utilities, Debt Service, Asset Preserv.</td>
<td>20.1</td>
<td>7</td>
</tr>
<tr>
<td>All other expenses and transfers</td>
<td>0.9</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total GF Expense</strong></td>
<td>$ 290.2</td>
<td>100%</td>
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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:
  o FY 2012-13 performance funding rolled into FY2013-14 base
  o 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
  o Including additional funding for MPSERS, total year-to-year increase in state funding of $1.1M (1.7%) -- if meet tuition restraint cap

• Considerations in developing the FY14 Budgets:
  o Implementing Strategic Plan successfully will require funding
  o Physician Assistant Program first cohort planned for May 2014
  o Continuing development of new academic programs and other enrollment growth initiatives remains a priority
  o Fall 2013 housing occupancy/demand will likely exceed current capacity
  o Technology improvements (classroom, wireless, IT infrastructure) and addressing critical deferred maintenance priorities for limited capital funds
Questions....Comments