

Eastern Michigan University

Financial Position and FY11 Budget Status

Budget Forum

August 26, 2010

Today's Agenda

□ *May and June Budget Forums*

- FY11 Operating Budget and 0%, 0%, 0%
 - Strategy and Context
 - Key Assumptions, Enablers, and Risks
- Budget Process – ABBP
- Capital Spending Overview

□ *August Budget Forum*

- FY10 Financial Results
- Tuition Increases for Fall 2010
- FY11 Budget
 - Assumptions and Status
 - Health Care Reform Act

□ *Today's Focus*

- Eastern's Financial Position
- FY11 Budget Assumptions and Status

Eastern's Balance Sheet... Stable, But Financial Leverage Is High

(In Millions)

June 2009

June 2010

Notes:

(Audited)

(Preliminary)

Assets

- Cash and Investments	\$174	\$126	Capital asset increase and cash decrease reflects capital spending (Science Complex, Pray-Harrold, Other)
- Capital Assets (Buildings, etc.)	326	379	
- Other Assets	<u>52</u>	<u>59</u>	
Total Assets	<u>\$552</u>	<u>\$564</u>	

Liabilities

- Debt	\$245	\$241	Financial leverage - debt in relation to reserves – is high
- Other Liabilities	<u>75</u>	<u>93</u>	
Total Liabilities	<u>\$320</u>	<u>\$334</u>	

Net Assets

- Invested in Capital, Net of Debt	\$158	\$166	Reduction in expendable net assets reflects planned investment in capital; continues in FY11
- Expendable Net Assets (Reserves)	<u>74</u>	<u>64</u>	
Total Net Assets	<u>\$232</u>	<u>\$230</u>	

Eastern's Balance Sheet In Context...Moody's Ratings of Financial Health

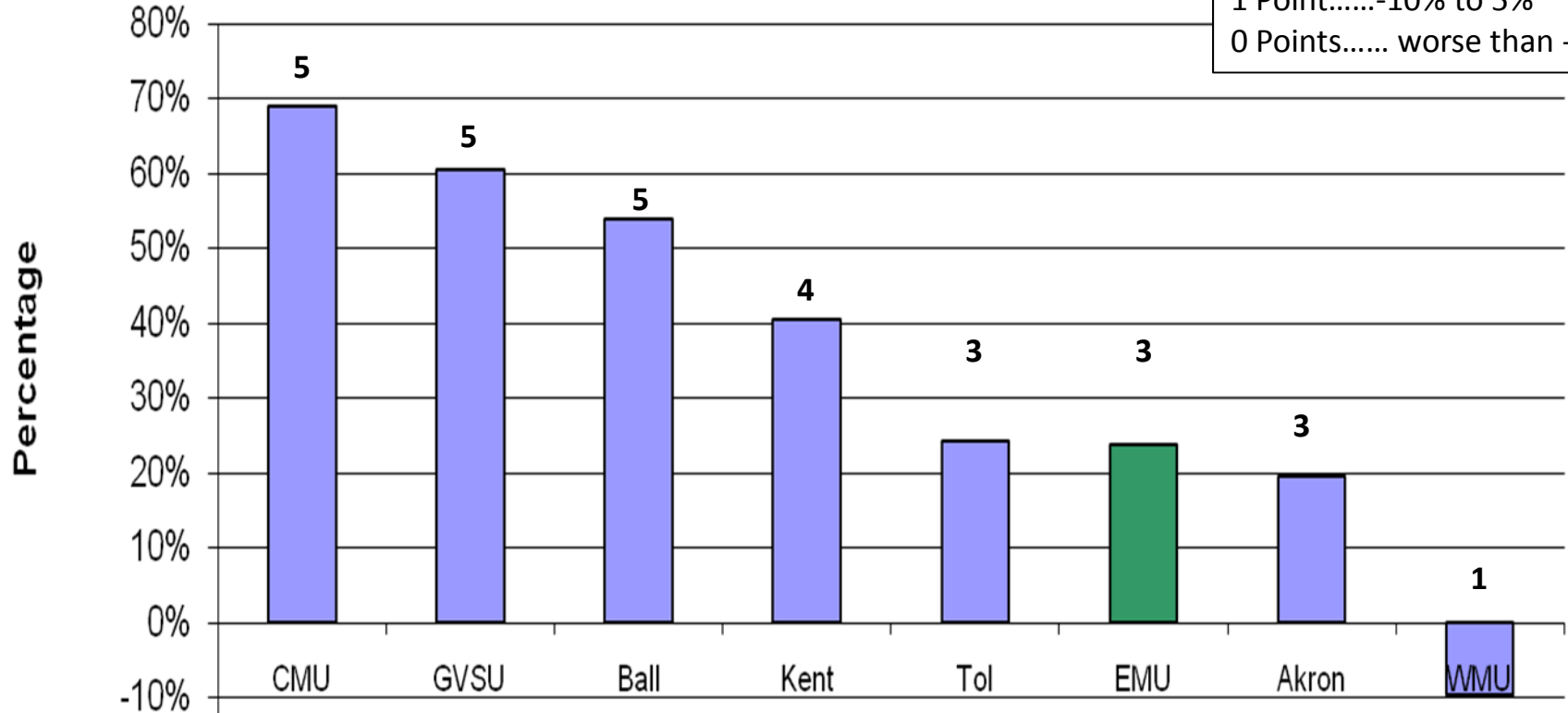
EMU has \$64 million in reserves (\$74 million at June 2009). However, the dollar amount of reserves does not tell a complete story without benchmarks and knowing:

- ❑ What's the ratio of reserves to expenses (Primary Reserve Ratio)?
- ❑ What's the ratio of reserves to long term debt (Viability Ratio)?
- ❑ What's the ratio of net income to revenue (Net Income Ratio)?
- ❑ Given these ratios, what's EMU's financial condition as determined by Moody's, an outside rating agency?
- ❑ What affect does all of this have on EMU's credit rating with Standard & Poor's and Moody's?

Moody's Primary Reserve Ratio...Reserves to Expenses

FY 2009

Moody's Ratio Scoring
 5 Points.....50% or more
 4 Points.....25% to 50 %
 3 Points.....10% to 25%
 2 Points.....5% to 10%
 1 Point.....-10% to 5%
 0 Points..... worse than -10%

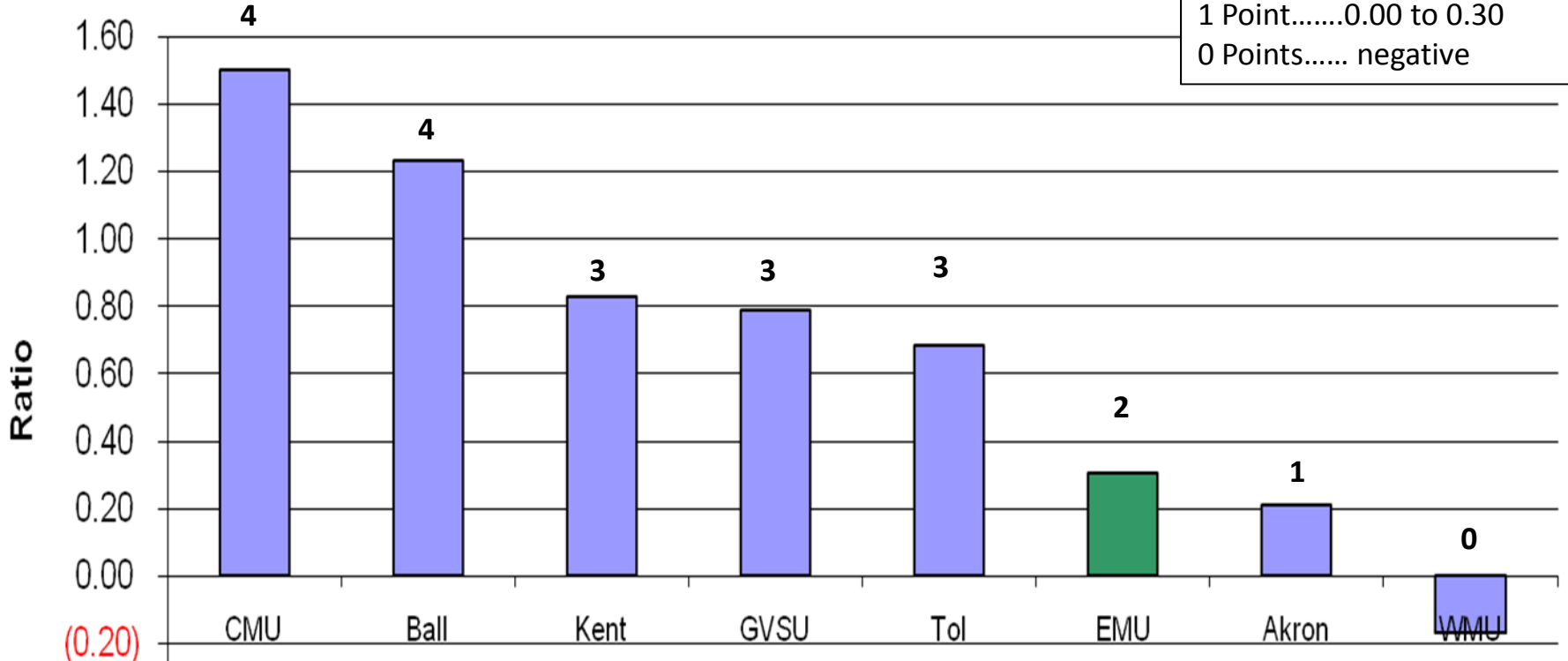


	CMU	GVSU	Ball	Kent	Toledo	EMU	Akron	WMU
Expendable Net Assets	249,732,682	201,379,620	214,089,982	229,351,000	192,282,000	74,462,361	86,858,828	(48,387,164)
Expenses	361,900,000	332,474,422	396,732,540	566,254,000	790,238,000	313,605,547	443,958,827	498,492,656
Primary Reserve Ratio	69%	61%	54%	41%	24%	24%	20%	-10%
EMU in 2010						20%		

Moody's Viability Ratio...Reserves To Debt

FY 2009

Moody's Ratio Scoring
 5 Points.....2.50 or more
 4 Points.....1.00 to 2.50
 3 Points.....0.60 to 1.00
 2 Points.....0.30 to 0.60
 1 Point.....0.00 to 0.30
 0 Points..... negative



Expendable Net

Assets	249,732,682	214,089,982	229,351,000	201,379,620	192,282,000	74,462,361	86,858,828	(48,387,164)
Debt	166,209,424	173,609,018	276,019,000	255,635,000	281,719,000	244,795,000	410,474,600	288,316,111
Viability Ratio	1.50	1.23	0.83	0.79	0.68	0.30	0.21	(0.17)

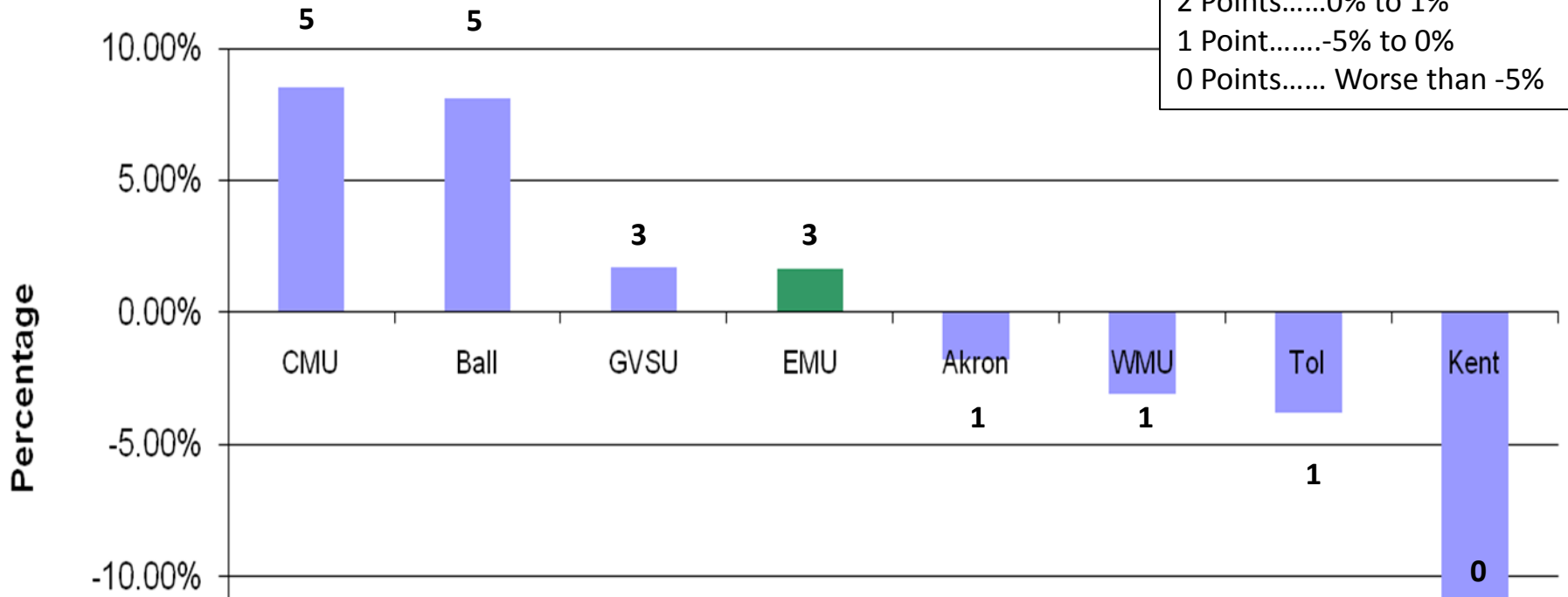
EMU in 2010

0.27

Moody's Net Income Ratio...Net Income As Percent of Revenue

FY2009

Moody's Ratio Scoring
 5 Points.....5% or more
 4 Points.....3 % to 5%
 3 Points.....1% to 3%
 2 Points.....0% to 1%
 1 Point.....-5% to 0%
 0 Points..... Worse than -5%



	CMU	Ball	GVSU	EMU	Akron	WMU	Toledo	Kent
Change in Net Assets	33,669,569	35,166,338	5,724,708	5,292,668	(7,855,000)	(15,015,647)	(29,001,000)	(63,499,000)
Total Revenue	395,710,654	431,898,878	338,199,130	318,898,215	436,102,000	483,477,009	761,237,000	502,755,000
Net Income Ratio	8.51%	8.14%	1.69%	1.66%	-1.80%	-3.11%	-3.81%	-12.63%

EMU in 2010

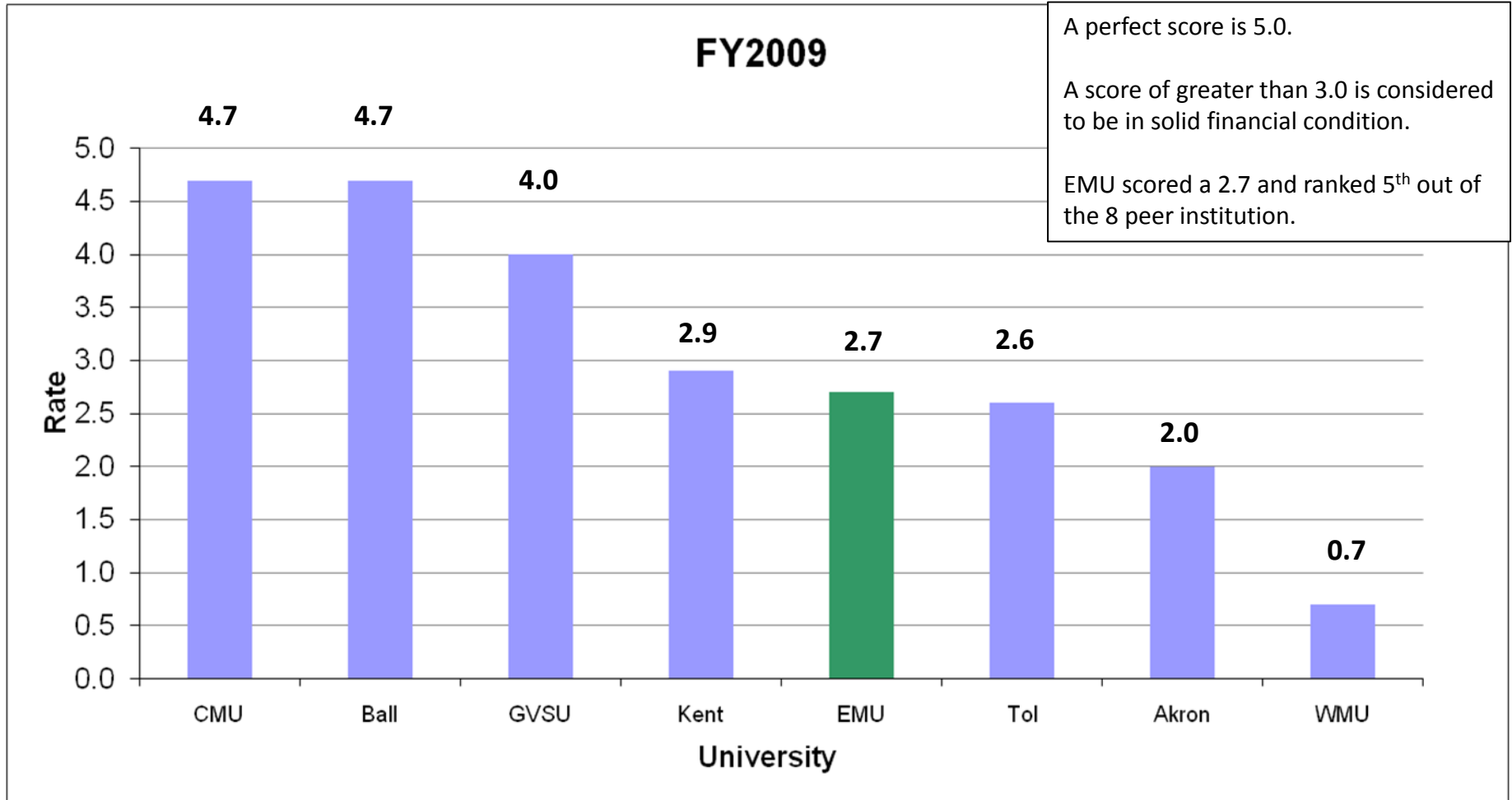
TBD

Moody's Composite Rating... Weighting of

50% For Reserves to Expenses

30% Reserves To Debt

20% Net Income To Revenue



Credit Ratings of Benchmarks...S&P and Moody's

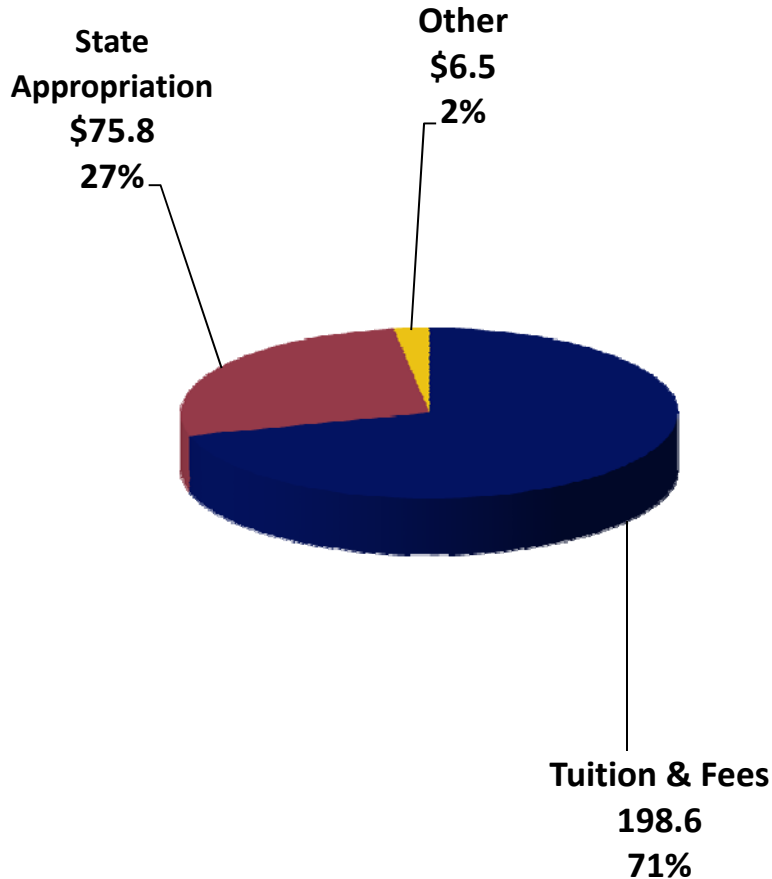
University	S&P	Moody's
Central Michigan	A+	Aa3
Ball State	A+	Aa3
Grand Valley State	A+	Aa3 ('09)
Kent State	A+	Aa3
Toledo	A+	A1
Western Michigan	A	A1
Eastern Michigan	A-	A1
Akron	Not Rated	A1

Note: UM Ann Arbor (AAA, Aaa); MSU (AA, Aa1); WSU (AA-, Aa2); MTU (N/R, Aa3); OU (N/R, A1); FSU (A, A1); NMU (A, A1); SVSU (A, A1); LSSU (BBB+, N/R)

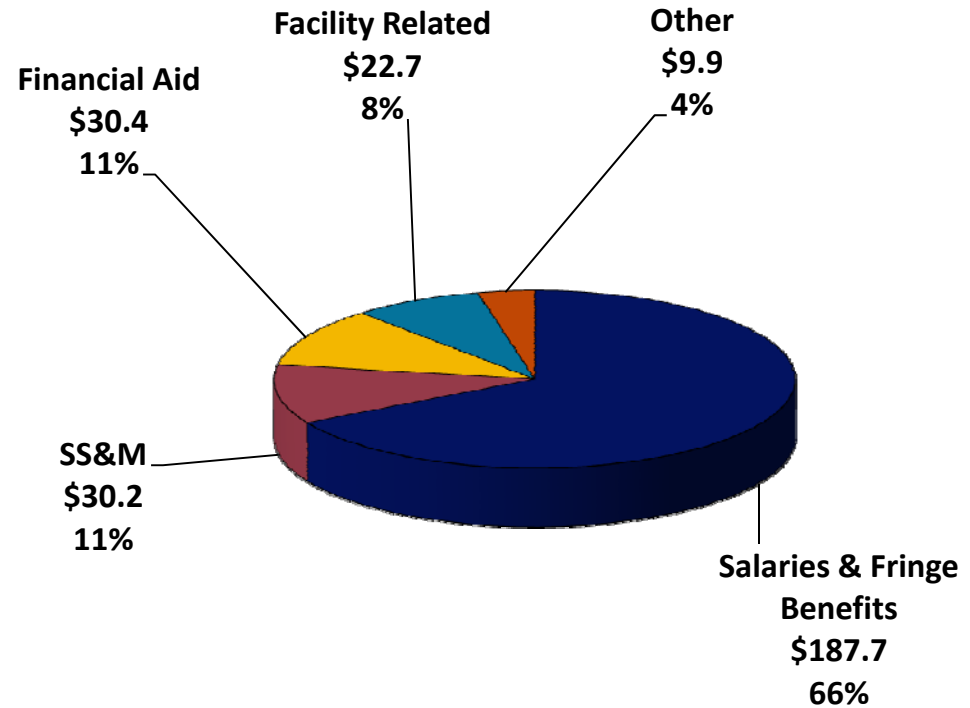
FY11 General Fund Budget...

Revenues and Expenditures Balanced at \$280.9 Million

**FY10-11 GF Revenues
(\$280.9)**



**FY10-11 GF Expenses
(\$280.9)**



FY11 General Fund...Tight Budget, Health Care Reform Act An Added Challenge

Budget Assumption

Status / Outlook

Revenue-Related

- ❑ Student Credit Hours increase 3.4% over FY10
- ❑ State Appropriation reduced 3.1% from FY10

- ❑ Summer – up 5.6%, but small numbers
- ❑ Fall – registration 90% complete – up 2.2%
 - ❑ 1% SCH change = \$1.9M in revenue
- ❑ State budget not finalized – reduction of 3.0% to 3.5% seems likely

Expense-Related

- ❑ Invest in faculty (up 10), facilities (\$66.6M) and financial aid (\$30.4M)
- ❑ Health Care - no significant impact of Health Care Reform Act
- ❑ ABBP funding of \$1.6M
- ❑ Other cost elements

- ❑ 38 successful faculty searches – Fall Faculty expected to increase 14
- ❑ Provisions of Act (19-26 year old, preventative care) will add to plan cost
- ❑ Included in Divisional budgets
- ❑ Utilities and debt service forecast to be under budget

Health Care Cost and Reform Act Implications

- ❑ **Annual Cost In CY09 For Active Faculty And Staff About \$21 Million**
 - ❑ Faculty, staff paid 14% of total cost through premium sharing, deductibles, co-pays, and co-insurance
 - ❑ Eastern paid 86% of total cost

- ❑ **Provisions of Reform Act Relating To 19 - 26 Year-Olds Will Have Major Impact Beginning January 2011**
 - ❑ Significant added benefit for some faculty, staff
 - ❑ Added cost to Eastern not known – could be \$1.5 Million to \$2 Million
 - ❑ If added cost is \$1.7 Million, cost share would be 89% / 11%

- ❑ **Health Care Inflation Rates A Challenge To Budgets**

- ❑ **Detailed Discussion On Healthcare Up Next...**

Questions or Comments?

- ❑ Today's Presentation and Other Budget and Financial Information Available At:

- ❑ <http://www.emich.edu/busfin>

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