

**Effectiveness and Efficiency Accountability Report of  
the University of Missouri System**

**Fiscal Year 2011**

**January 25, 2012**

Efficiencies and Effectiveness Report  
Fiscal Year 2011  
UM

Since 1998, the University of Missouri System has systematically collected and reported on initiatives that have resulted in increased effectiveness and efficiency of University operations. The results of these efforts have been impressive and demonstrate the University's commitment to responsible stewardship of University assets and resources. The fiscal and economic conditions in the State of Missouri during this decade intensified the University's efforts to improve efficiencies through process redesign, consolidation of operations, utilization of technology, strategic reallocation, and various revenue enhancement initiatives. In addition, they have forced measures to cut expenditures and defer investments that cannot be continued indefinitely without significant negative impacts on the institution.

While effectiveness and efficiency efforts have always been a part of the University mode of operations, the development of a standardized format for demonstrating results has given the system and campuses a more definitive method of reporting and sharing operational improvement knowledge across the entire enterprise. This report focuses on the impact on operations funds. In addition, the report demonstrates to citizens, students, and government officials how the University is containing costs, operating more efficiently, reallocating resources to strategic priorities, and enhancing revenues beyond receipts from state appropriations and students fees. However, the University is requiring more and more of our dedicated employees and some of these actions are not sustainable long term. In addition, the University is deferring maintenance and repair expenditures that will lead to significant facilities needs within the next decade if this trend is not reversed.

### Reporting Categories

To ensure consistency in reporting, each effectiveness and efficiency initiative is reported in one of three categories described below. The first two are types of **cost reductions** and include initiatives where costs are avoided, contained, reduced or eliminated.

**Cost Avoidance** can occur if funds are provided by a third party, which allows the business unit to avoid spending general operating (GO) dollars. Examples include, but are not limited to, gifts/endowments that provide funds for existing salaries (e.g., an endowed position); student scholarships; and academic program development or improvements. These actions support a new business model for funding operations such that activities previously funded through the GO budget are sourced from other revenue streams, thus freeing up GO resources to be redeployed to other strategic priorities. Only incremental increases from the prior year are reported.

**Cost Management** initiatives produce cost savings or eliminate costs. Actions are considered cost savings if the initiative represents an actual decrease in current operating

expenses. In other words, the action will result in the fulfillment of a business objective but at a lower cost than previously incurred. Examples include, but are not limited to, cost savings from an open position, a position that is permanently reclassified to a lower salary range; acquisition of equipment, materials, and consumable supplies through strategic contracting at lower cost; and energy conservation resulting in lower utility costs. Cost containment initiatives contain the rise in costs (i.e. actions that reduce the rate of increase in costs). These actions tend to be rate and volume related. Examples could be contracting for reduced rates even when the volume increases or being able to reduce the volume of an item purchased even when the rates increase. Actions are considered cost elimination if the initiative represents an eradication or removal of costs from an operating unit. Examples include, but are not limited to, elimination of a position, closure of an operating unit, discontinuance of a service, and closure of a program.

**Revenue Enhancement:** An initiative is classified as revenue enhancement if the action directly increases the operating resources of the business unit. This category excludes governmental appropriations. Revenue enhancement may result from increases in facilities and administrative costs (indirect cost recoveries), entrepreneurial activities, technology transfer, sale of capital assets, sale of surplus property, private gifts, and net student fees due to enrollment increases. Only incremental changes in revenues from the prior year are included.

#### Common Terminology to Describe Effectiveness and Efficiency Initiatives

In preparing the narrative description of each initiative taken, efforts have been made to use common terms and phrases to the provided clarity and consistency in reporting across business units. The following terms or phrases, while not all inclusive, provide guidance in reporting cost avoidance and cost management initiatives.

- Competitive Contracting and Other Procurement Activities
- Deferral of Maintenance & Repairs
- Energy Conservation
- Operating Expense Reductions
- Postponed Equipment Purchases
- Travel Reductions/Professional Development/Training Cuts
- Workforce Reduction
  - Eliminated Positions
  - Salary Savings/Vacant Positions

Likewise, the following terms or phrases, while not all inclusive, provide guidance to business units in describing initiatives that enhance revenue.

- Entrepreneurial Activities
- Indirect Cost Recovery
- Net Tuition and Fees from Enrollment Growth and Management
- Other Income

## **Results from Effectiveness and Efficiency Initiatives Fiscal Year 2011**

Effectiveness and efficiency actions taken in fiscal year 2011 resulted in a total financial impact of \$131.6 million, as summarized in Table 1 below. Of the total financial results realized in fiscal year 2011, \$78.6 million, or 60%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$53.1 million, or 40%.

Table 1. Total Efficiencies & Effectiveness, University of Missouri System, FY2011

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Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	\$ 3,359,057
Cost Management (Cost Savings or Eliminated Costs)	<u>75,222,611</u>
Total Cost Reductions	\$ 78,581,668
Revenue Enhancements (Operating Resource Increase)	<u>\$ 53,052,031</u>
Total Efficiencies & Effectiveness	\$ 131,633,699

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Cost avoidance initiatives, \$3.4 million in FY2011, represent an intentional financial strategy to off-load current general operating expenses to other funding sources outside the general operating budget. Auxiliaries and Other Sources was the largest source of revenue substitution in FY2011 followed by grants.

Cost Management activities contributed \$75.2 million in FY2011. These are not to be confused with cost savings, although many cost savings are included in the total. Deferral of maintenance and repair expenditures and equipment purchases account for \$31.8 million or 42% of the total. These are truly postponement of expenditures that will have to occur in the future. In the case of facilities, deferral of needed maintenance and repairs over the last ten years has caused the condition of our buildings to decline and our deferred maintenance has grown to \$1.27 billion. Reductions in expenditures for professional development, training, and travel have continued to be cut and accounted for savings of \$0.3 million in FY2011. However, these are also temporary as it is important that training and professional development of faculty and staff not be permanently reduced to current levels if the quality of our human resources is to remain as high as possible.

Table 2. Total Cost Reductions, University of Missouri System, FY2011

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Gifts & Endowments	\$ 753,862
Grants	863,919
Auxiliaries and Other Sources	<u>1,741,276</u>
Total Cost Avoidance	\$ 3,359,057
Cost Management	
Competitive Contracting & Other Procurement Activities	\$ 22,132,298
Deferral of Maintenance & Repairs	30,610,248
Energy Conservation	1,330,271
Operating Expense Reduction	7,841,724
Postponed Equipment Purchases	1,159,312
Travel Reductions/Professional Development & Training Cuts	337,935
Workforce Reduction - Salary Savings/Vacant Positions	9,156,549
Workforce Reductions - Eliminated Positions	<u>2,654,274</u>
Total Cost Management Initiatives	\$ 75,222,611
Total Cost Reductions	<u>\$ 78,581,668</u>

Table 2 provided details of the cost reductions by broad categories. Competitive contracting and other procurement activities include negotiated expense reductions, rebates, contract utilization savings, savings through RFP/RFB events, and other similar activities. These activities contribute \$22.1 million of the total financial impact. Operating expense reductions of \$7.8 million include a combination of savings from business process redesign, using technology more efficiently, cuts in services provided and just generally doing more with less. Energy conservation measures contribute \$1.3 million.

Workforce reductions fall into two categories: eliminated positions and salary savings from vacant positions. Salary and benefits associated with eliminated positions total \$2.7 million. These funds were used to offset reductions in state appropriations and to fund other more strategically important positions and programs. Salary savings from vacant/open positions totaled \$9.2 million in FY2011. This was accomplished as a result of freezing many positions, and holding other positions open much longer than desirable in order to generate cost savings.

As shown in Table 3, revenue enhancements totaled \$53.1 million in FY2011. Net tuition and fees from enrollment growth and management at the university contributed \$38.4 million or 72% of the total growth in revenues. Assessment of a 1% administrative fee on gifts and endowments provided over \$6 million in marginal revenue. Increases also came from increased indirect cost recoveries related to grant and contracting activities, entrepreneurial activities such as research parks and other miscellaneous income.

Table 3. Revenue Enhancements, University of Missouri System, FY2011

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Revenue Enhancements	
Entrepreneurial Activities	\$ 1,657,345
Gifts & Endowments	6,034,690
Grants	23,467
Indirect Cost Recovery	3,464,458
Other	3,488,949
Net Tuition & Fees from Enrollment Growth & Management	38,383,121
Total Revenue Enhancements	<u>\$ 53,052,031</u>

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Additional details can be found in the appendix tables.

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APPENDIX

MU

Effectiveness and efficiency actions taken in fiscal year 2011 on the MU campus resulted in a total financial impact of \$65.2 million. Of the total financial results realized in fiscal year 2011, \$37.0 million, or 57%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$28.2 million, or 43%, Tables 2a. and 3a. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2a. Total Cost Reductions, MU, FY2011

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Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries & Other Sources	\$ 1,131,276
Gifts & Endowments	753,862
Grants	863,919
Total Cost Avoidance	<u>\$ 2,749,057</u>
Cost Management	
Competitive Contracting & Other Procurement Activities	\$ 4,579,655
Deferral of Maintenance & Repairs	16,440,150
Energy Conservation	909,004
Operating Expense Reduction	5,106,619
Postponed Equipment Purchases	634,312
Travel Reductions/Professional Development & Training Cuts	187,935
Workforce Reduction - Salary Savings/Vacant Positions	5,771,093
Workforce Reductions - Eliminated Positions	591,274
Total Cost Management Initiatives	<u>\$ 34,220,042</u>
Total Cost Reductions	<u>\$ 36,969,100</u>

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Table 3a. Revenue Enhancements, MU, FY2011

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Revenue Enhancements	
Entrepreneurial Activities	\$ 926,615
Gifts & Endowments	3,987,622
Grants	23,467
Indirect Cost Recovery	1,186,662
Other	1,048,949
Net Tuition & Fees from Enrollment Growth & Management	21,046,207
Total Revenue Enhancements	<u>\$ 28,219,523</u>

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## UMKC

Effectiveness and efficiency actions taken in fiscal year 2011 on the UMKC campus resulted in a total financial impact of \$20.5 million. Of the total financial results realized in fiscal year 2011, \$8.7 million, or 43%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$11.8 million, or 57%. Tables 2b. and 3b. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2b. Total Cost Reductions, University of Missouri- Kansas City, FY2011

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Cost Reductions	
Cost Management	
Deferral of Maintenance & Repairs	\$ 6,998,910
Postponed Equipment Purchases	525,000
Workforce Reduction - Salary Savings/Vacant Positions	<u>1,200,000</u>
Total Cost Management Initiatives	<u>\$ 8,723,910</u>
Total Cost Reductions	\$ 8,723,910

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Table 3b. Total Revenue Enhancements, University of Missouri- Kansas City, FY2011

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Revenue Enhancements	
Gifts & Endowments	\$ 855,521
Indirect Cost Recovery	1,339,796
Net Tuition & Fees from Enrollment Growth & Management	<u>9,600,509</u>
Total Revenue Enhancements	\$ 11,795,826

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## Missouri S&T

Effectiveness and efficiency actions taken in fiscal year 2011 at Missouri S&T resulted in a total financial impact of \$10.5 million. Of the total financial results realized in fiscal year 2011, \$4.7 million, or 45%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$5.8 million, or 55%. Tables 2c. and 3c. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2c. Total Cost Reductions, Missouri S&T, FY2011

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Cost Reductions	
Cost Management	
Deferral of Maintenance & Repairs	\$ 1,993,746
Energy Conservation	421,267
Operating Expense Reduction	337,708
Workforce Reduction - Salary Savings/Vacant Positions	1,996,460
Total Cost Management Initiatives	<u>\$ 4,749,181</u>
Total Cost Reductions	\$ 4,749,181

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Table 3c. Total Revenue Enhancements, Missouri S&T, FY2011

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Revenue Enhancements	
Gifts & Endowments	\$ 685,547
Net Tuition & Fees from Enrollment Growth & Management	5,089,611
Total Revenue Enhancements	<u>\$ 5,775,158</u>

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## UMSL

Effectiveness and efficiency actions taken in fiscal year 2011 on the UMSL campus resulted in a total financial impact of \$12.8 million. Of the total financial results realized in fiscal year 2011, \$8.7 million, or 68%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$4.1 million, or 32%. Tables 2d. and 3d. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2d. Total Cost Reductions, University of Missouri- St. Louis, FY2011

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Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries & Other Sources	\$ 610,000
Total Cost Avoidance	\$ 610,000
Cost Management	
Deferral of Maintance & Repairs	\$ 5,177,442
Operating Expense Reduction	842,000
Workforce Reductions - Eliminated Positions	2,063,000
Total Cost Management Initiatives	\$ 8,082,442
Total Cost Reductions	\$ 8,692,442

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Table 3d. Total Cost Reductions, University of Missouri- St. Louis, FY2011

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Revenue Enhancements	
Gifts & Endowments	\$ 506,000
Indirect Cost Recovery	938,000
Net Tuition & Fees from Enrollment Growth & Management	2,646,794
Table Total Revenue Enhancements	\$ 4,090,794

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## UM System Administration

Effectiveness and efficiency actions taken in fiscal year 2011 in the system office resulted in a total financial impact of \$22.6 million across the system. Of the total financial results realized, \$19.4 million, or 86%, was attributed to cost reduction initiatives. Revenue enhancement efforts accounted for \$3.2 million, or 14%. Competitive contracting and other procurement activities initiated by the system on behalf of the institution totaled \$17.6 million. Other revenue enhancements include \$2.4 million recovered in federal funds on behalf of campus from unreimbursed expenses from prior years. Entrepreneurial activities of \$0.7 million include marginal increases in research park revenue into operations fund. Tables 2e. and 3e. below provide additional details on cost reductions and revenue enhancements respectively.

Table 2e. Total Cost Reductions, University of Missouri System Administration, FY2011

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Cost Management	
Competitive Contracting & Other Procurement Activities	\$ 17,552,643
Operating Expense Reduction	1,555,396
Travel Reductions/Professional Development & Training Cuts	150,000
Workforce Reduction - Salary Savings/Vacant Positions	188,996
Total Cost Management Initiatives	<u>\$ 19,447,035</u>
Total Cost Reductions	\$ 19,447,035

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Table 3e. Total Revenue Enhancements, University of Missouri System Administration, FY2011

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Revenue Enhancements	
Entrepreneurial Activities	\$ 730,730
Other	<u>2,440,000</u>
Table Total Revenue Enhancements	\$ 3,170,730

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