Efficiencies and Effectiveness Accountability Report of the University of Missouri System

Fiscal Year 2013

November 2013

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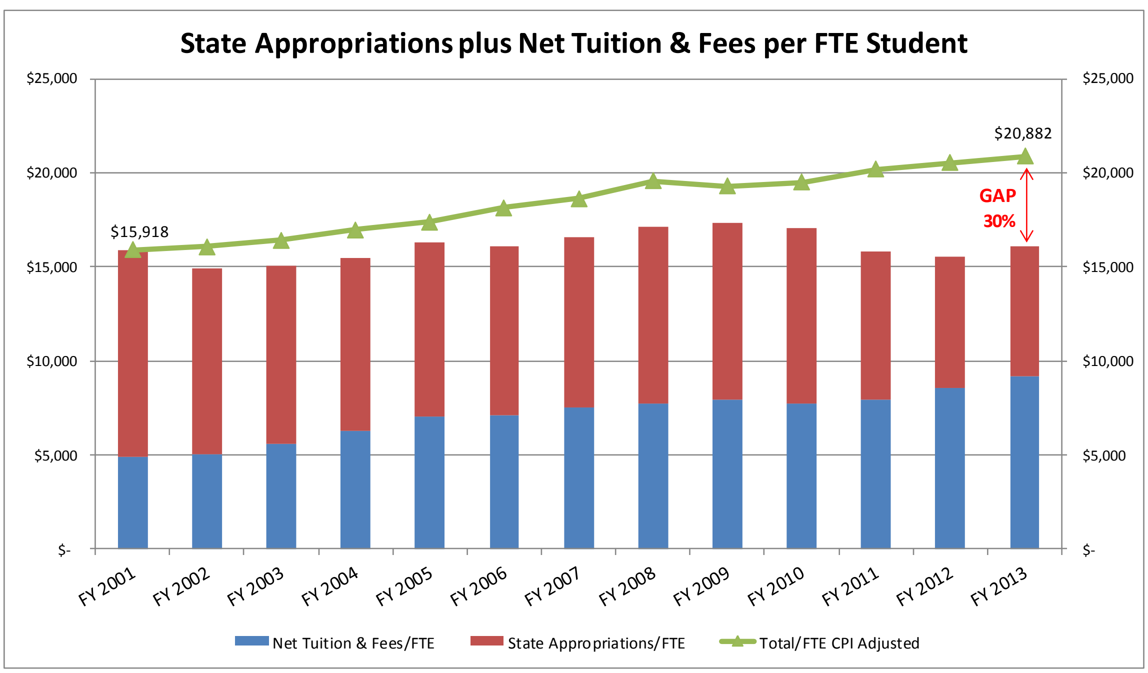
UM

Since 1998, the University of Missouri System has systematically collected and reported data on initiatives resulting in increased effectiveness and efficiency of university operations. This report demonstrates how the university is containing costs and operating more efficiently. Results of these efforts have been impressive and demonstrate the university's commitment to responsible stewardship of university assets and resources.

<u>Per Student Revenues Remain Flat</u>

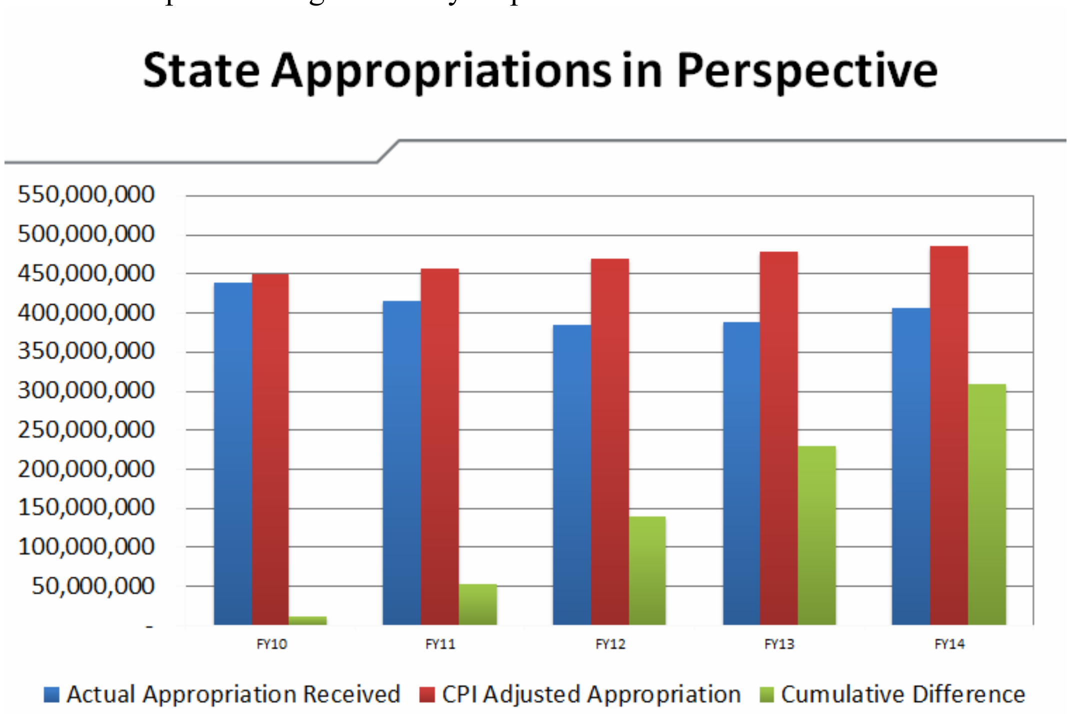
Two major sources of revenue for the general operations of the University of Missouri are net tuition and fees, and state appropriations. Historically these sources have contributed 85% or more of the total resources for general operations.

The chart below shows total state appropriations and net tuition and fees per full-time equivalent (FTE) student since FY2001. As you can see, state appropriations per FTE student have declined while net tuition and fees per FTE student have increased. However, the combined total has remained basically flat since FY2001. Adjusted for inflation, the combined total funding per FTE student has actually fallen 30%, or $4,763 per FTE student, as compared to FY2001. The university's cost management and efficiency efforts have helped to bridge this gap.



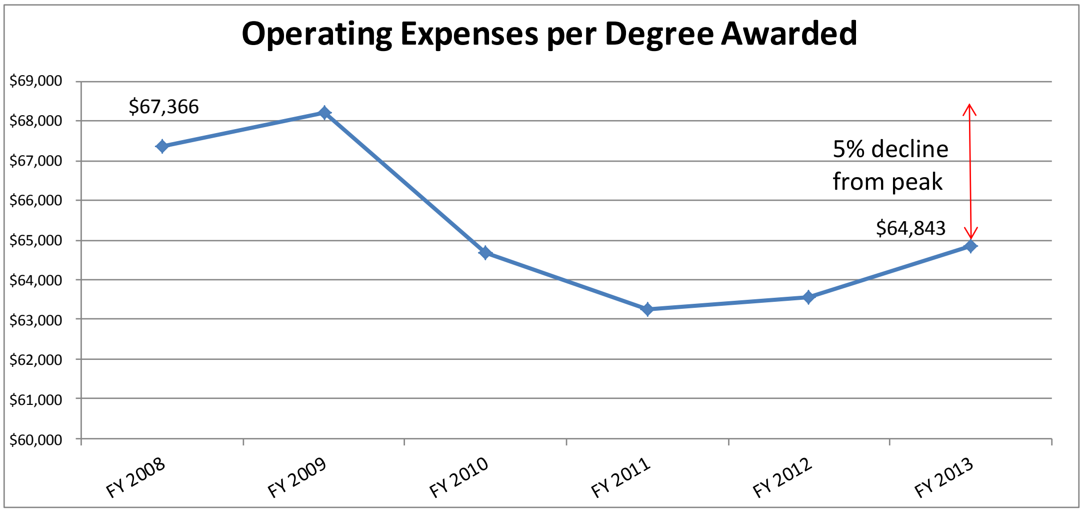
Illustrating the Impact of Reductions in State Appropriations

Simply looking at what has happened to the university's state appropriations since FY2010 gives an even better perspective of budget challenges faced by the university. The chart below starts with FY2010 and compares actual state appropriations received to what the amount would have been simply adjusted for inflation each year. The chart then calculates a cumulative gap over the period of FY2010 through FY2014; that cumulative gap totals slightly more than $300 million. Clearly, the financial crisis of 2008-09 had an adverse impact on the State's budget, which caused reductions in state appropriations each year. Nonetheless, the university's ongoing costs continued to increase during that period. Approximately $80 million of this revenue gap was covered by increased enrollment, although at a cost of higher student to faculty ratios in many areas. Since the university has to balance its budget each year, this data suggests approximately $220 million in cost reductions took place during this five-year period.



Reduction in Operating Expenditures Per Degree

One clear indicator of reduction in costs during recent years is operating expenditures per degree awarded. Over the last five years nominal expenditures per degree awarded has declined from $67,366 in FY2008 to $64,843 in FY2013. Measuring from the peak in FY2009, this represents a 5% reduction cost per degree.



Specific Cost Reduction Efforts

In looking at more specific cost reduction efforts, the following table indicates net savings of nearly $48 million in FY2013, which represents approximately 4% of the university's total operations fund expenditures.

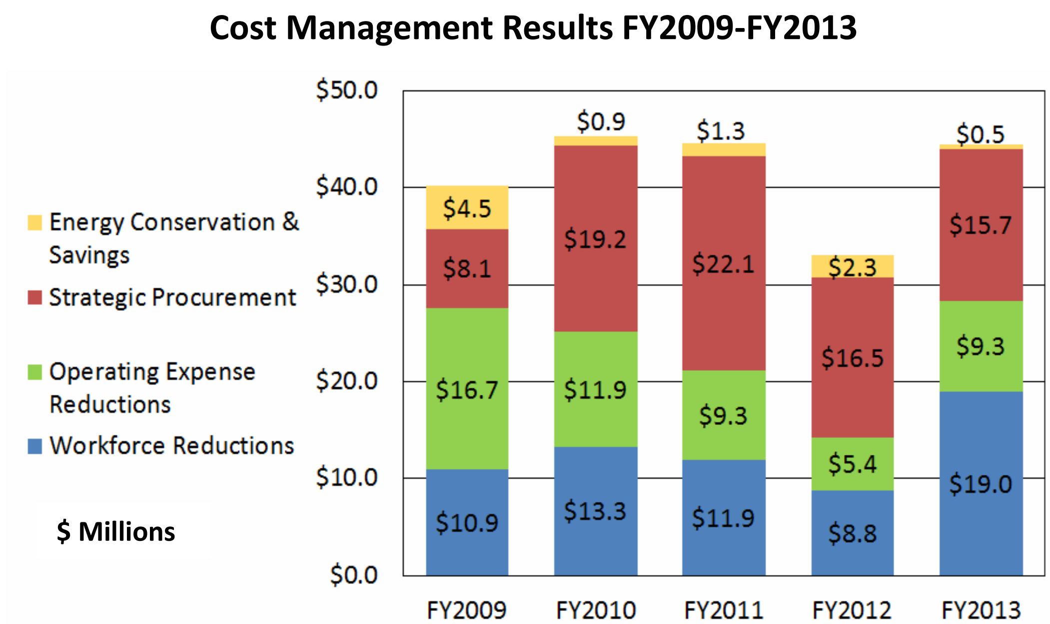
Total Cost Reductions, University of Missouri System, FY2013

Cost Reductions	
Cost Avoidance (Transferred Expenses to Other Sources)	
Auxiliaries and Other Sources	$ 2,357,957
Gifts & Endowments	468,677
Grants	367,948
Total Cost Avoidance	$ 3,194,582
Cost Management	
Workforce Reductions	$ 18,955,137
Competitive Contracting & Other Procurement Activities	15,723,726
Energy Conservation & Savings	472,951
Postponed Equipment Purchases	3,146,975
Other Operating Expense Reduction	6,232,443
Total Cost Management Initiatives	$ 44,531,232
Total Cost Reductions	$ 47,725,814
% of Total Operating Expenditures	4%

Cost avoidance efforts for FY2013 totaled $3.2 million. These were expenditures normally paid by the general operations budget transferred to other sources of funds. The primary source was auxiliary enterprises at $2.4 million, followed by gifts at $0.5 million and grants (exclusive of faculty salaries paid by grants) of $0.4 million.

Cost management efforts totaled $44.5 million. The largest component was workforce reductions from position eliminations and salary savings from vacant positions of $19 million. Strategic procurement initiatives resulted in savings of $16 million. Energy conservation efforts resulted in savings of $0.5 million and other operating expense reductions including postponement of equipment purchases made up the balance.

Results of cost management efforts over the last five years are summarized in the chart below. A total $207.6 million in cost management efforts have been documented from FY2009 through FY2013. Of this amount $63.9 million has come through workforce reductions including both position eliminations and salary savings from vacant positions. The largest component has been from strategic procurement initiatives which totaled $81.6 million over the last five years.



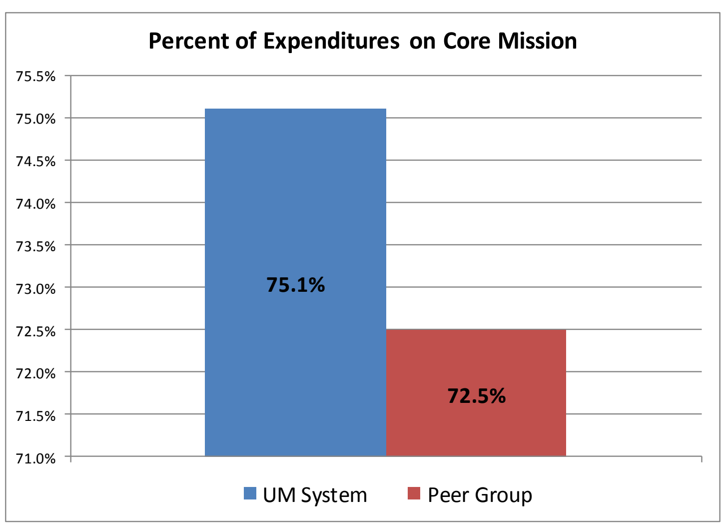
The following table provides details on workforce reduction actions taken in the FY2013 general operations budget. Position eliminations across all campuses and system totaled $6 million and 90.7 FTE. Of these 30.2 FTE were academic positions and 60.5 FTE were administrative positions. Salary savings from vacant positions contributed $13 million and an equivalent of 178.9 FTE of which 116.9 FTE were vacant academic positions and 62 FTE were vacant administrative positions. Total impact of workforce reductions on the academic side was $13.3 million and 147.1 FTE; on the administrative side, workforce reductions totaled $5.7 million and 122.5 FTE.

Total Workforce Reductions, University of Missouri General Operations, FY2013

	Academic		Administrative		Total	
	FTE	Amount	FTE	Amount	FTE	Amount
Workforce Reductions - Eliminated Positions						
MU	2.0	$ 70,473	18.2	$ 547,510	20.2	$ 617,983
UMKC	-	121,690	11.0	344,400	11.0	466,090
S&T	15.7	2,135,826	15.3	575,667	31.0	2,711,493
UMSL	12.5	1,251,700	11.0	586,700	23.5	1,838,400
UMSYS	-	-	5.0	352,870	5.0	352,870
Total	30.2	$ 3,579,689	60.5	$ 2,407,147	90.7	$ 5,986,836
Workforce Reductions - Salary Savings/Vacant Positions						
MU	78.3	$ 5,186,080	53.7	$ 2,523,924	132.0	$ 7,710,004
UMKC	6.0	817,130	3.0	85,240	9.0	902,370
S&T	30.7	3,518,000	0.3	38,427	31.0	3,556,427
UMSL	1.9	186,500	-	-	1.9	186,500
UMSYS	-	-	5.0	613,000	5.0	613,000
Total	116.9	$ 9,707,710	62.0	$ 3,260,591	178.9	$12,968,301
Total Workforce Reductions	147.1	$ 13,287,399	122.5	$ 5,667,738	269.6	$18,955,137

Prioritization of Core Mission Funding

One of the university's performance measures for state funding is percentage of expenditures supporting the core mission. As illustrated in the chart below, for the most recent data available, 75.1% of the university's total operating expenditures were dedicated to funding our core mission, encompassing instruction, research, and public service. Peer group expenditures on core mission totaled 72.5%. This data suggests, compared to peers, the university spends approximately $37 million less on non-core administrative and support costs. This is yet another transparent measure of the university's efforts to operate as efficiently as possible.



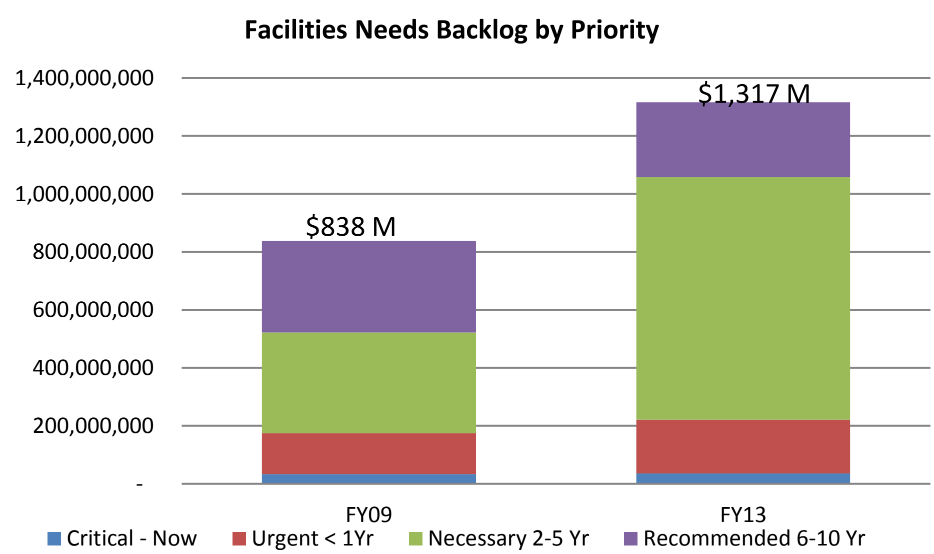
Continued Financial Strength

It is important to note, while the university has worked hard to take out more than $200 million in costs over the past five years, we have continued to balance the budget each year while also maintaining access and affordability. Further, we have met these challenges while still working hard to maintain the financial strength of the university itself. As evidence of this achievement, Moody's and S&P have recently reaffirmed the university's solid Aa1 and AA+ credit ratings. The following observations were taken directly from the recently issued ratings reports:

> *"Historically, the system has effectively managed through operating and capital appropriation cuts, and we consider UM's budgeting to be both conservative and proactive."* Standard and Poor's report, dated October 17, 2013
>
> *"Prudent fiscal management with a focus on cost containment enabled the university to continue to produce consistently positive operations despite declining state appropriations."* Moody's report, dated October 17 2013

Cost Management Consequence – Inadequate Facilities Investment

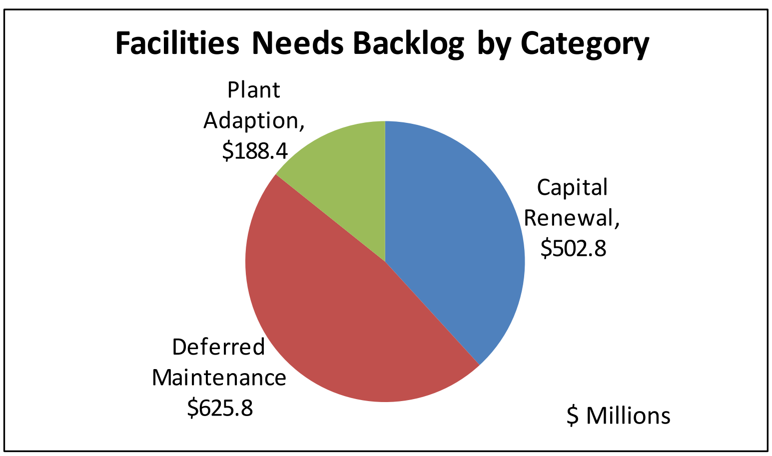
One of the consequences of the university's cost management efforts in recent years has been reduced investment in maintenance and repair of facilities. Related directly to recent budget challenges, the university has not been able to invest in our facilities at the level necessary to appropriately maintain them. The result has been an increase in accumulated backlog of maintenance and repair needs. The $1.3 billion backlog has grown beyond the university's ability to manage it with current resources. As a result, the university increasingly uses its limited resources to address emergencies rather than investing in preventive maintenance and renovations that adapt older facilities to current student needs. Growth in the facilities needs backlog from FY2009 to FY2013 was $479 million and is shown in the chart below.



There are two primary ways to look at the $1.3 billion in needed facilities investment. The chart above shows required facilities investment needs by priority. The Critical category represents issues that should be addressed immediately; they could potentially fail at any moment and become an emergency repair, the worst value in maintenance and repair spending. This category totaled $33.8 million in FY2009 million and $35.4 million in FY2013. The second priority is Urgent; these are potentially critical items that should be addressed within one year. The need for investment in this priority category is $186.1 million in FY2013 compared to $141.3 million in FY2009. The Necessary category contains items described as vital, but not yet critical and which should be addressed within 2-5 years. This is the largest category and also the one that has shown the largest growth - $490 million in the last four years; it is currently $836.6 million. In looking at these first three categories, the university's projections – supported by detailed assessments of each building - suggest needed investment of up to $1 billion within the next five years. The final category, Recommended, includes projects considered necessary to undertake within the next 6-10 years.

The most recent facilities condition audit, which provides an in-depth assessment of building needs by category and priority, shows only 37% of the university's facilities are in good or excellent condition, 17% in fair condition, 35% in below average condition, and remaining 11% require total renovation or complete replacement.

Another way to look at the $1.3 billion in needed facilities investment is by type of investment. The chart below divides total investment need into three categories; Capital Renewal, Deferred Maintenance, and Plant Adaptation.



Capital Renewal is for major repairs when items reach the end of their useful life. When taken care of timely, this is the most efficient use of maintenance dollars. The amount in this category is $503 million. Deferred Maintenance occurs when repairs were not accomplished as a part of normal maintenance where deterioration is evident and could impair functionality; this category currently totals $626 million dollars. Plant Adaptation is where investment is required to adapt facilities to evolving institutional needs and changing standards; the total need is this area is $188 million.