Effectiveness and Efficiency Accountability Report of the University of Missouri System

Fiscal Year 2009

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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 demonstrate the University's commitment to responsible stewardship of University assets and resources. The fiscal and economic conditions in the State of Missouri during the first half of this decade heighted the University's efforts to improve efficiencies through process redesign, consolidation of operations, utilization of technology, strategic reallocation, and various revenue enhancement initiatives.

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. 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.

Reporting Categories

To ensure consistency in reporting, each effectiveness and efficiency initiative is reported in one of four categories described below.

Cost avoidance: An initiative is classified as cost avoidance 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., and endowed position); student scholarships; and academic program development/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. An action may also result in cost avoidance when operating costs that would normally be incurred are temporarily deferred. An example would include savings from a hiring freeze.

Cost management: An initiative is classified as a cost management action if the initiative produces cost savings or eliminates 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 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 cost. Actions are consider 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 (unrestricted and restricted) of the business unit. This category should exclude governmental appropriations. Revenue enhancement may result from increases in facilities and administrative costs (indirect cost recovery), entrepreneurial activities, technology transfer, sale of capital assets, sale of surplus property, grants and contracts, private gifts, and net student fees due to enrollment increases.

Initiatives Funded through Reallocation: An initiative is classified as a reallocation if the action redirects existing resources from one operating unit, function, or expense class to another that has higher strategic priority. The strategic intent of the priority governs the extent to the action is considered a reallocation to higher, more strategic priorities. In general, reallocation implies the desire to improve the effectiveness of the entity or object of expenditure receiving the funds. The reallocation actions may also be required in order to be responsive to policies set by the governing board (e.g., salary and wage policies, funding of maintenance and repair, etc.). In addition, the entity from which funds are extracted is expected to continue operations with lower resource levels. Items included under this category could also be reported in one of the other three categories, thus presenting a source use funding flow.

<u>Common Terminology to Describe Effectiveness and Efficiency Initiatives</u>

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.

- Academic program elimination/consolidation
- Business process improvement/redesign
- Energy conservation
- Workforce reduction
- Strategic partnership with external entities
- Reduction of service
- Technology initiatives
- Competitive contracting
- Outsourcing

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

- Indirect cost recovery
- Entrepreneurial activities
- Technology transfer
- Sales of capital assets
- Sales of surplus property
- Grants and contracts
- Private gifts
- Net student fees attributed to enrollment growth

Results from Effectiveness and Efficiency Initiatives Fiscal Year 2009*

Due to economic conditions in the State of Missouri during fiscal year 2009, President Forsee issued two executive directives that had a significant impact on reducing expenditures during the year. In November of 2008, the President initiated a hiring freeze to be in effect through the remaining portion of the fiscal year. In January of 2009, the President issued a second statement directing the component units of the University System to reduce non-personnel operating expenditures (e.g., travel, marketing and advertising, professional services and consulting, employee training, overtime pay, non-capital expenditures for maintenance and repair and equipment, consumable supplies, etc.)

The Board policy and the President's directives set the stage for implementing the major effectiveness and efficiency initiatives presented in this report. These efforts lead to significant financial outcomes across the entire University System. Effectiveness and efficiency actions taken in fiscal year 2009 resulted in a total financial impact of $98,335,278. Of the total financial results realized in fiscal year 2009, $37,604,518, or 38.2%, was attributed to cost management initiatives. Revenue enhancement efforts accounted for $26,998,300, or 27.5%. Efficiencies achieved through cost avoidance actions totaled $26,613,731, or 27.1%, while reallocation of resources to higher priorities contributed $7,118,729, or 7.2%

Expense reductions of $37,604,518 attributed to **cost management** initiatives are presented below by broad operational action categories.

E&E Operating Cost Reductions/Deferrals	$18,088,498
Competitive Contracting	8,095,983
Energy Conservation	4,534,454
Workforce Reduction	2,498,419
Technology Initiatives	2,312,272
Business Process Improvement	1,253,711
Outsourcing	335,904
Academic Program Consolidation	293,777
Reduction of Service	200,500
Total Cost Management	$37,604,518

Cost avoidance initiatives represent an intentional financial strategy to defer operating costs or to off-load current general operating expenses to other funding sources. A total of $26,613,731 was realized through these efforts. During fiscal year, the University initiated a hiring freeze resulting in $8,237,707 in compensation savings. Revenues that replaced general operating funding requirements totaled $18,376,024. Details of specific sources are presented below by broad resource categories.

Private Gifts/Endowments	$12,246,082
Internal Recoveries & Other	4,138,505
Strategic Partnerships	1,241,437
Grants	750,000
Subtotal	$18,376,024
Hiring freeze	8,237,707
Total Cost Avoidance	$26,613,731

Of the total $26,998,300 in **revenue enhancement**, approximately 86% came from the following three sources: net student fee revenue attributed to enrollment growth ($14,299,491), indirect cost recoveries ($5,396,070), and entrepreneurial activities ($3,489,430).

Approximately 79.0%, or $5,612,074, of the $7,118,729 in **reallocations** was targeted for salary increases, while the remaining 21.0%, or $1,506,655, was redirected to higher priority programs and services.

While not included in the above reported figures, two important initiatives were undertaken in July of 2009 that warrant noting even though they technically represent savings for fiscal year 2010. The first of these initiatives was a capital debt issuance of $256.3 million under the Build American Bond (BAB) program along with $75.76 million in traditional tax exempt bond financing. The BAB's program coupled with favorable market rates produced a present value savings of $40 million. The second initiative was a modification to the retirement system. Historically, contributions to the retirement system were made entirely by the University. Starting in July of 2009, contributions were shared between the university and the employee. This change will result in a $12 million savings in the University's cost of providing retirement benefits.

The financial impact of the FY2009 initiatives plus the two initiatives noted above brings the total results from the University's effectiveness and efficiency efforts to approximately $150.3 million.

*Details can be found in the attached report.