

UMass FY21 Budget Planning

Board of Higher Education Meeting

June 23, 2020



University of Massachusetts

Amherst • Boston • Dartmouth • Lowell • Medical School • UMassOnline

Agenda

- UMass by the Numbers
- Financial Management
- FY21 Scenario Planning
- Cash Flow Modeling
- Solutions

UMass by the Numbers

UMass Finances: by the Numbers

While UMass is large in scale, it faces significant challenges in meeting its operational goals.



\$3.5 billion annual budget



\$558 million in state appropriation
(not including fringe)



75,000+ students by headcount &
18,000 new graduates annually



\$148 million average
monthly payroll



\$347 million in UMass
funded financial aid



\$140 million average monthly
spend with over **17,000** vendors



\$684 million in annual research &
development



24,000 employees,
3rd largest employer in MA

UMass Capital: by the Numbers

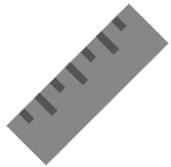
With over 330 buildings and 25.1 million gross square feet of space, UMass has a complex and extensive real estate profile that needs to be actively managed.



\$4.4 billion deferred maintenance backlog



About **92,000** students, staff, and faculty



25.1M Total GSF across the university



3,677 maintained acres



330 buildings across 5 campuses

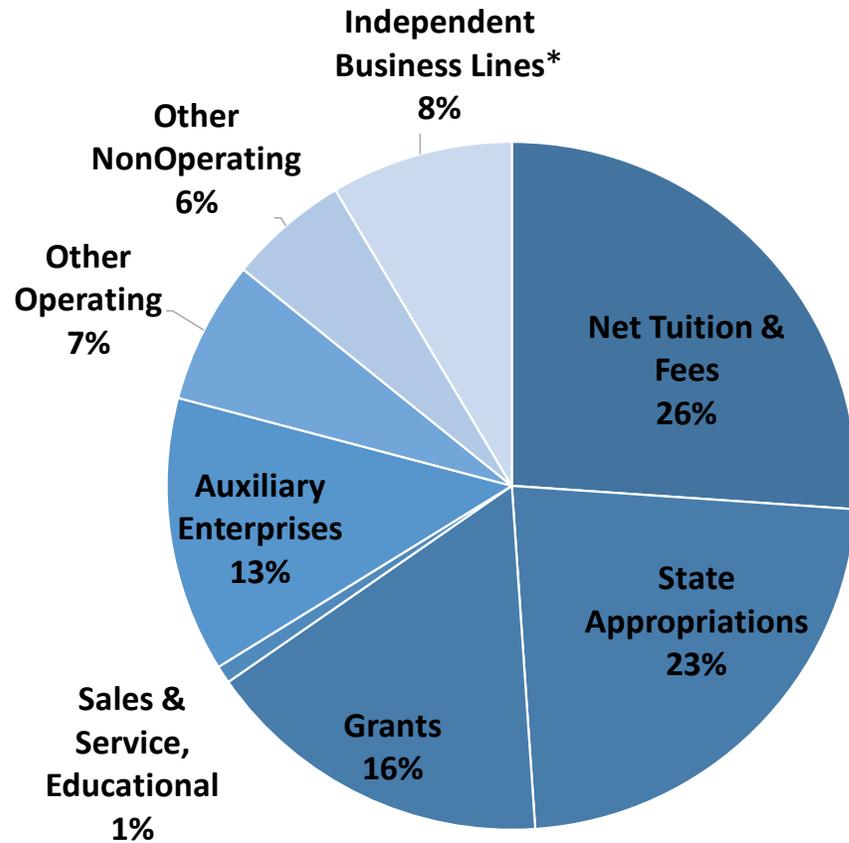


\$13 billion replacement value

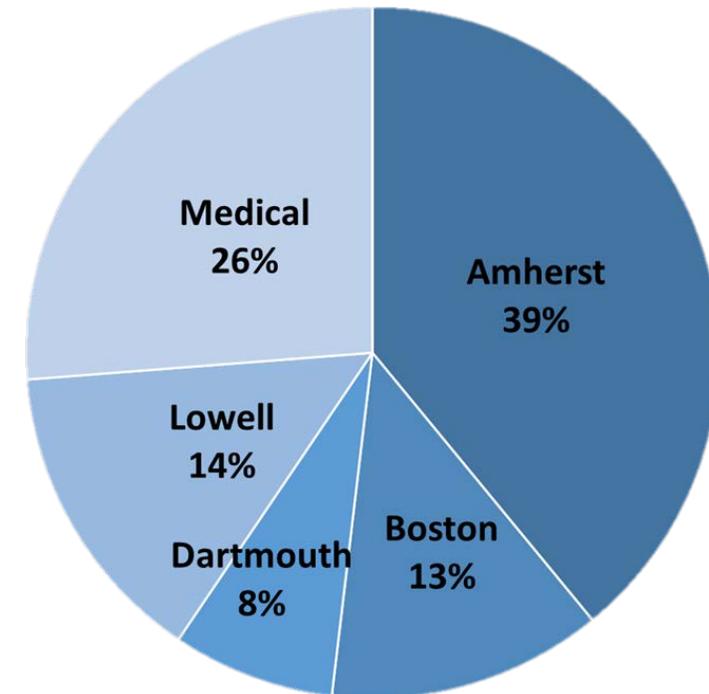
About UMass: Total Revenue = \$3.5 Billion

UMass has strong revenue diversity, including tuition, state support and research activity.

FY20 Revenue By Type

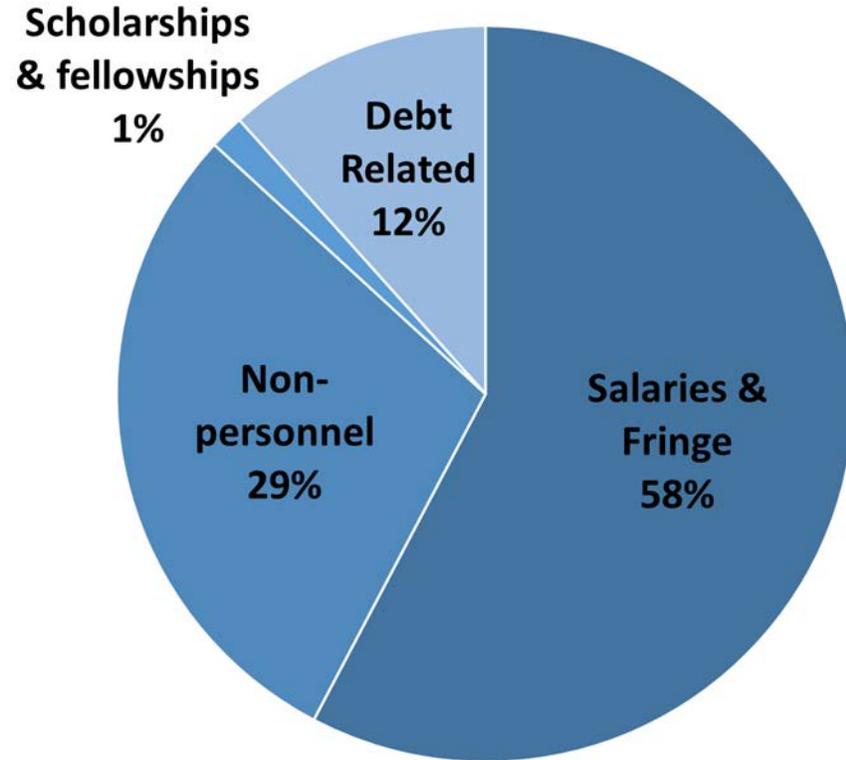


FY20 Revenue By Campus

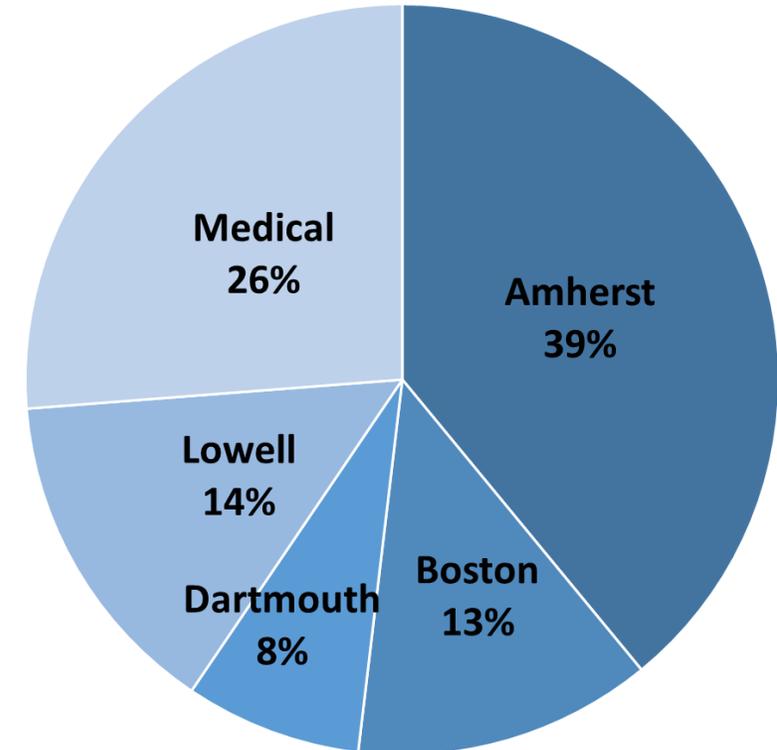


About UMass: Total Expenses = \$3.5 Billion

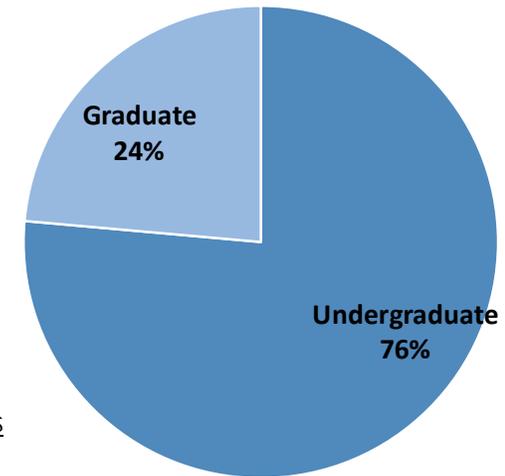
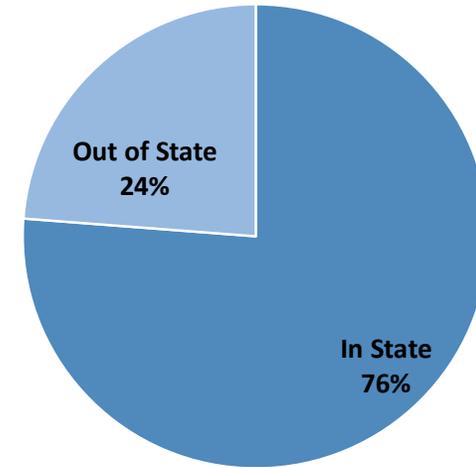
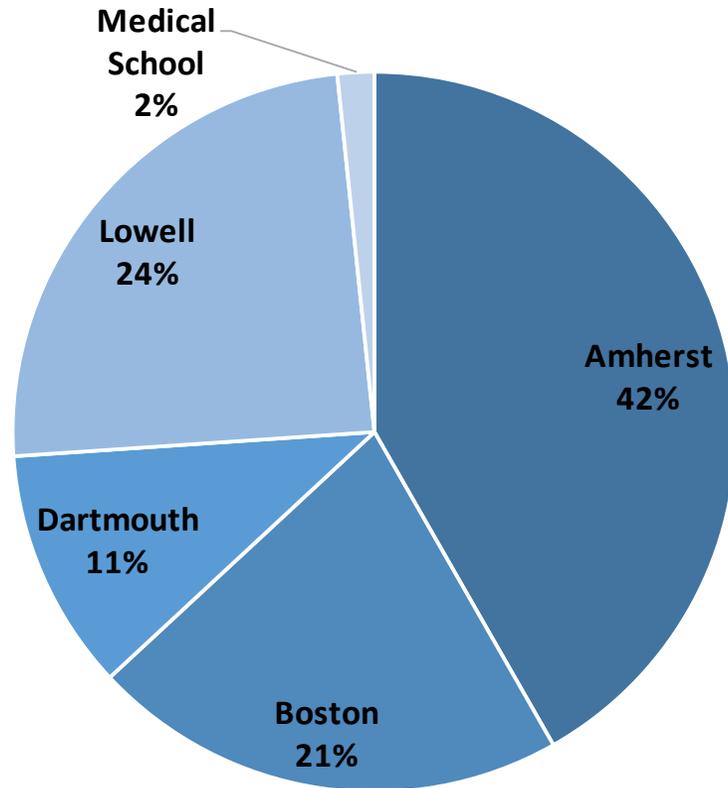
FY20 Expenses By Type



FY20 Expenses By Campus



About UMass: Total Enrollment = 75,064 Students



Enrollment in this graph is based upon student headcount. There are 66,005 Student full-time equivalents (FTEs) which are used for financial the various financial projections used throughout this report.

Financial Management

Financial Management through COVID-19

UMass has put the proper controls in place to help manage the harsh financial reality COVID-19 has created.

- COVID-19 is placing significant financial stress on higher education institutions by impacting major sources of revenue and creating uncertainty in enrollment.
- The ability for the University to deliver on its core mission demands structurally balanced budgets, which are essential for long-term financial sustainability.
- UMass operates according to industry best practices and continuously analyzes national benchmarks and peer trends.
- Strong financial oversight has been recognized by credit rating agencies despite the industry-wide negative outlooks resulting from the current COVID-19 crisis.
- Experience with in-year reporting and real-time data collection enable UMass to make appropriate budget adjustments throughout the fiscal year.
- UMass continues to develop high-impact efficiencies across the five campuses, including expanding its shared services initiative.

UMass Financial Accountability Framework

UMass has strengthened its long-term financial outlook by adopting a framework for financial accountability.

- The framework is based upon four key tenets:
 1. **Oversight**: Independent and objective assurance that analyzes data, processes, policies and controls
 2. **Internal Controls**: Standard processes designed to provide reasonable assurance regarding the achievement of objectives
 3. **Transparency**: Reliable, timely information that is accessible and understandable
 4. **Risk Management**: Systematic approach to identifying, assessing and managing risks across the organization

UMass Financial Accountability Framework

- Multi-year financial forecast
- Quarterly financial projections
- Monthly projections if needed
- Scenario planning
- Real time student tracking
- Standard FTE Reports
- Reserve Policy
- Capital Policy amended

- Key performance indicators
- Peer benchmarks
- A&F Executive Dashboard 1.0
- Trend analysis
- Annual Financial Report enhanced
- Financial reports on website



- Quarterly financial close
- Automated year end consolidation
- Unrestricted Net Asset reporting
- Improved student AR reserve procedure
- Cash flow reporting
- Cash flow forecasting model
- Centralized MMARS reporting

- Active and growing ERM program
- Engaging multidisciplinary/cross-functional subject matter experts system-wide
- Insurance as a mitigation strategy
- Health and Safety Council
- Travel Registry
- Risk-based decision-making
- COVID-19 Response

- Enables a more robust shared service organization

Shared Services

The accountability framework has enabled the University to create a centralized, efficient and effective delivery model for procurement, accounts payable, treasury, insurance, legal counsel, and IT services across the University.

- Since 2013, efficiency and effectiveness (E&E) efforts have saved the University over \$124 million in savings: actual spending reduced by \$22.3 million, cost avoidance totaled \$102.3 million.
- The Unified Procurement Services Team (launched in January 2020) is projected to reduce costs by \$15 - \$20 million in just the first 18 months.
- Shared services help the University:
 - Maintain access and affordability for students
 - Enhance quality of educational experience by optimizing resources
 - Invest in strategic priorities of the campuses
- Future planning for shared services includes continued analysis of payroll and time and labor to develop a future service delivery model.

Unified Procurement Services Team: *Achievements since January*

“Better, faster, cheaper”

Process Enhancements (BETTER)

- ~**35%** decline in weekly spend (over 2019 levels) driven by enhanced spend workflow controls
- System-wide policy and delegation of authority harmonization
- Supplier price concession initiative for the campuses
- Campus specific non-personnel cost optimization initiatives i.e. property leases

Ease of Administration (FASTER)

- **91%** of requisitions converted to a PO in 1 day or less
- **83%** of eligible early payment discounts captured
- ~**15,000** cases received
- **94%** of all cases closed
- **49,000** purchase orders
- **94,000** invoices processed

Cost Discipline (CHEAPER)

- **40% (\$5.5M)** of target \$13.5M actualized via bids
- Identified **\$15M-\$20M** of savings in sourcing initiatives
- Over **80 ‘deals’** in the pipeline with system-wide savings in play currently:
 - Technology = \$700K
 - Energy Sourcing = \$3.4M
 - Property Leases = \$0.7M -\$1.3M

FY21 Scenario Planning

FY21 Planning

- UMass will implement a structurally balanced budget
 - Structural balance ensures the long-term financial sustainability of the University
 - In FY21, UMass will balance its budget and achieve at least a 0% operating margin
 - Some one-time revenue sources, such as federal CARES Act funding, may be used in FY21 to cover limited expenses based on funding source and restrictions
 - Use of one-time solutions must be limited as UMass continues to analyze which revenue impacts are likely to be long-term beyond FY21
- Assumptions made in the five-year financial forecast, published in December 2019, and the University's FY21 state budget request are being revised
- Scenario planning is underway for a variety of different revenue and expense impacts

Scenario Planning: Potential Revenue Impacts

Scenarios shown here are independent levers for scenario modeling purposes only.

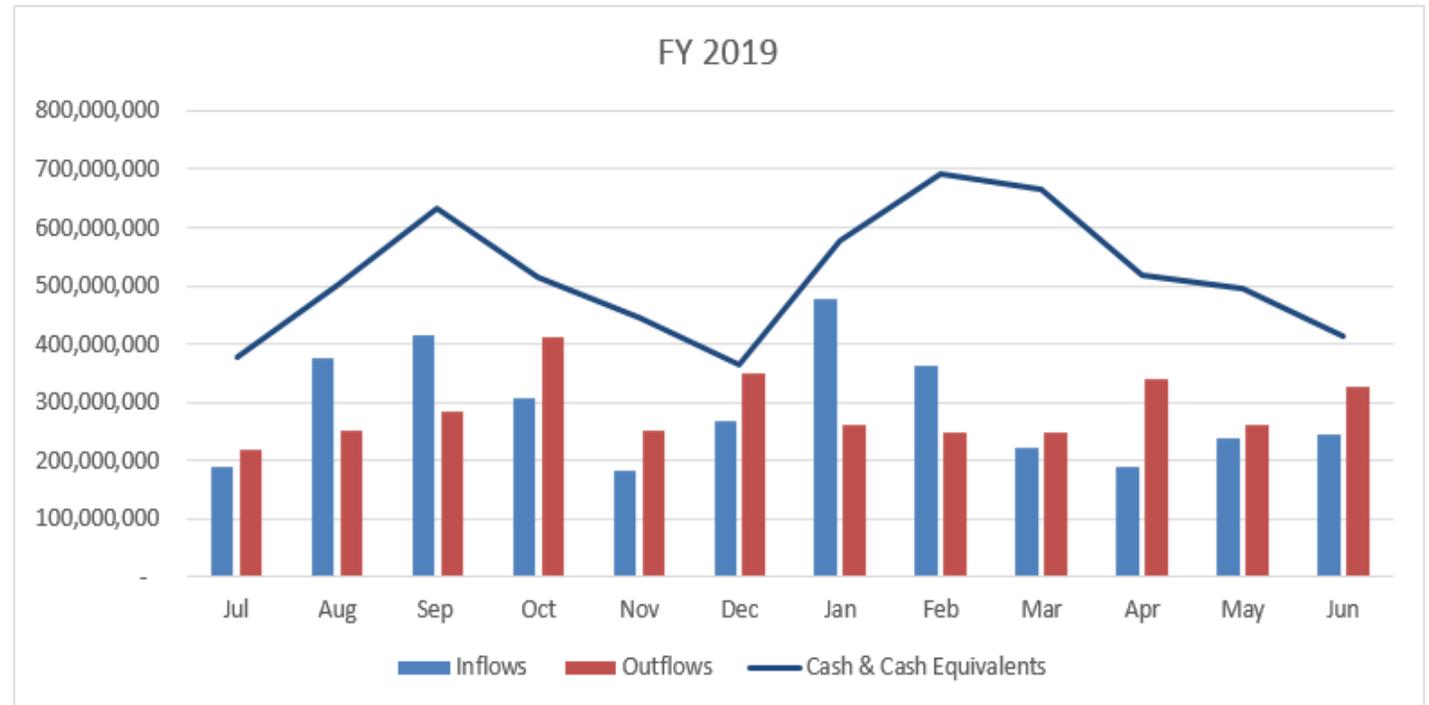
Scenario		Brief Description
A	Tuition: Out of state & grad	Freeze tuition; current assumption up to 3.0%
B	State appropriation: 5%, 10%, 20% reduction	Reduce funding, including fringe, by 5%,10% & 20%; current assumption is no increase
C	Enrollment: 5%, 10%, 15% reduction	Reduce for all categories by 5%, 10%, & 15% for the <u>full year</u> (impacts tuition, housing & dining); current increase varies by campus
D	Enrollment: No international	No international students (impacts tuition, housing & dining)
E	Hybrid Learning: 50% housing & dining for fall semester	Assume remote learning for half the <u>fall</u> semester; reduce housing & dining revenue
F	Remote Learning: 0% housing & dining for fall semester	Assume remote learning for all <u>fall</u> semester; no housing & dining revenue

Cash Flow Modeling

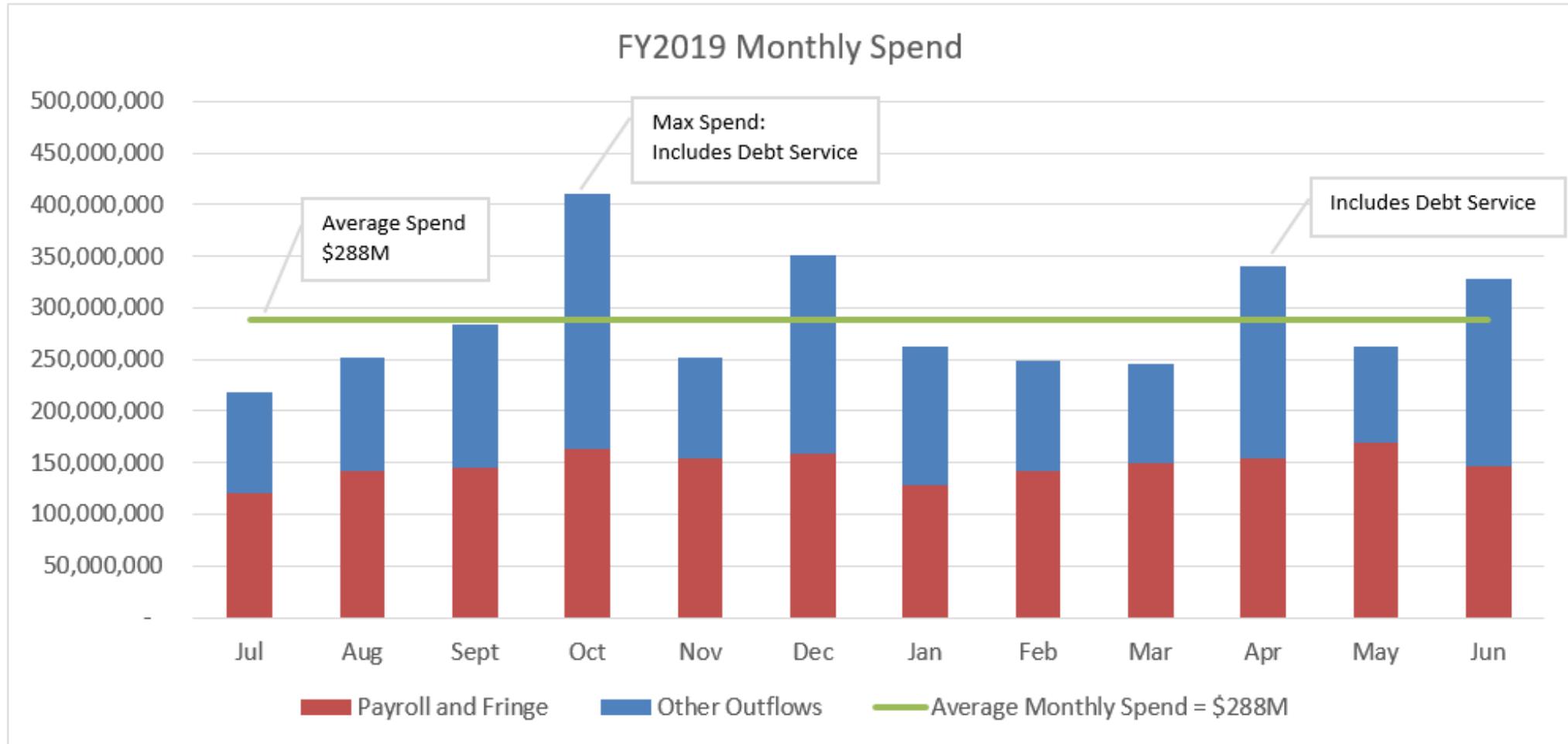
Seasonality of UMass Cash Flow

The seasonality of cash flows in higher education creates periods where cash inflows and cash outflows are mismatched.

- Cash receipts are strong at the beginning of the fall and spring semesters
- Cash receipts are low in the late spring and summer months
- Significant cash outflows occur in October and April as a result of debt service payments



UMass FY2019 Monthly Spend



FY21 Scenarios – Cash Forecasting

Cash flow monitoring and forecasting is a critical component of the University's management strategy, enabling the ability to effectively manage through the current crisis.

- The COVID pandemic does not come with a timeline for when things will return to normal; preserving liquidity* is critical during these uncertain times
- UMass does not have the statutory authority to backstop liquidity with a line of credit
- Revenue scenarios have been modeled to analyze impact on liquidity
- The University FY21 Budget will implement solutions to reduce spend and will be balanced
- UMass targets an industry standard of at least 90 days of liquidity as a benchmark

Days Cash Facts

90 days = industry standard

60 days = maximum monthly outflow

34 days = average monthly spend

Solutions

FY21 Solutions

Plans to mitigate impacts to the FY21 budget and achieve balance include the following solutions:

- Non-personnel spending reductions
 - 35% decline in weekly spend
 - \$15M-\$20M in estimated savings
 - 80+ deals in progress for system savings
- Prioritizing capital expenditures
 - 12% of the University's \$2 billion capital plan has been placed on hold
- Comprehensive workforce strategy
 - Including general and job-specific furloughs, voluntary separation incentive program, salary reductions, and layoffs
- State resources
- Continued efficiency & effectiveness measures
- Federal CARES Act
 - Higher Education Emergency Relief Fund (\$8.9M estimated for FY21, \$23M total)
 - Governor's Emergency Education Relief Fund (\$51M for all segments of education, both public and private)
- Debt refinancing opportunities

FY21 Next Steps

- Continue analyzing various scenarios and developing solutions as more information becomes available
- Balance the FY21 budget and achieve at least a 0% operating margin
- Review FY21 budget with Board of Trustees on July 20 at rescheduled A&F Committee and full Board meetings
- Work with campus leadership and trustees to implement the FY21 budget and actively manage progress throughout the fiscal year; additional solutions will be developed as needed
- Continue exercising principles of the University's Financial Accountability Framework to manage throughout the fiscal year