FY 2022 Five-year Financial Plan and Recommended Targets

February 3, 2022
Financial Accountability & Performance Policy

Overview

- Board approves financial performance targets as a part of the financial planning process – Today’s Action

- University Leadership is responsible for:
  - Managing financial performance within target
  - Balancing financial resources with mission demands
  - Completing financial plans that tie together resources

- Consequences for falling below target include:
  - Lack of participation in strategic dividend investment
  - Capital project prohibition
  - Debt prohibition
  - Reserve Lockbox

- Approved and revised annually
Financial Plan Used to Define Performance

Today’s Meeting

June Meeting

Level of Detail
- High
  - Long-Range Plan Initiatives / Resources
- Low
  - Grants Planning (continuous process)

Strategic Plan
- Capital Plan / Budget
- Operating Plan / Budget (All Funds)
- Enrollment
- Labor
- Allocations

Time (months)
- 1 2 3 4 5 6 7 8 9 10 11 12

Annual Budget Approval and GAAP Audit
- LRP etc.
- FORECAST (Q1)

University of Missouri System
COLUMBIA | KANSAS CITY | ROLLA | ST. LOUIS

February 3, 2022
OPEN – FIN – 1-39
Financial Performance:
How the institution uses cash to fund operations and capital investment

Strategic Priorities

Operating Performance - Capital Investment +/ - Debt
X 5 Budgets X 5 Years X 5 Years

Impact on Wealth, Foundation of Credit

*University built plans at a level of performance to maintain credit rating*
Use of Debt in Plans

- The use of debt is governed by two limiting factors in determining credit:
  - Debt capacity: size of debt to other assets
  - Debt affordability: can the new debt be paid back?

- Debt affordability was the main limiting factor in this planning cycle for academic units
  - However, it is possible that projects that generate enough growth to fund debt will be identified in the coming years

- Debt should be leveraged to amplify growth and financial returns
# Institutional strategy and investment informed targets

<table>
<thead>
<tr>
<th>Unit</th>
<th>Capital Needs for Strategy</th>
<th>Use of Debt</th>
<th>Resulting Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>MU Health</td>
<td>Most intense capital plan with investment in campus consolidation and addition of new outpatient spaces once consolidation complete</td>
<td>+266M (200M already approved)</td>
<td>7%</td>
</tr>
<tr>
<td>MU</td>
<td>Increased capital investments for Mizzou Forward</td>
<td>None</td>
<td>2%</td>
</tr>
<tr>
<td>Missouri S&amp;T</td>
<td>Increased capital investments for North Star Objectives (enrollment, research, ranking)</td>
<td>None</td>
<td>2%</td>
</tr>
<tr>
<td>UMKC</td>
<td>Health Sciences and Swinney funded with gifts and state appropriations</td>
<td>None</td>
<td>1%</td>
</tr>
<tr>
<td>UMSL</td>
<td>Campus consolidation, funded mainly with state with match identified</td>
<td>None</td>
<td>1%</td>
</tr>
</tbody>
</table>
Recommended Financial Performance Targets

The proposed performance targets for the upcoming planning cycle were developed to maintain the University’s credit rating.

<table>
<thead>
<tr>
<th></th>
<th>UM</th>
<th>MU</th>
<th>UMKC</th>
<th>Missouri S&amp;T</th>
<th>UMSL</th>
<th>MU Healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>&gt;2.5%</td>
<td>&gt;2.0%</td>
<td>&gt;1.0%</td>
<td>&gt;2.0%</td>
<td>&gt;1.0%</td>
<td>&gt;7.0%</td>
</tr>
<tr>
<td>Spendable Cash to</td>
<td>&gt;1.0</td>
<td>&gt;0.80</td>
<td>&gt;0.55</td>
<td>&gt;0.80</td>
<td>&gt;0.55</td>
<td>200 DCOH</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spendable Cash to Debt</td>
<td>&gt;2.0</td>
<td>&gt;1.6</td>
<td>&gt;1.0</td>
<td>&gt;1.6</td>
<td>&gt;1.0</td>
<td>&gt;1.5</td>
</tr>
<tr>
<td>Debt Service Coverage*</td>
<td>&gt;3.0</td>
<td>&gt;2.5</td>
<td>&gt;3.0</td>
<td>&gt;2.5</td>
<td>&gt;4.5</td>
<td></td>
</tr>
</tbody>
</table>

*Metric used to determine if unit can afford to take on additional debt service

Other targets fall in line with operating performance growth and balance with current capacity.
Key Assumptions that Underwrite Financial Performance

- Sustained academic revenue growth per student is necessary to the support mission
- Federal and State resources offer the universities the opportunity to invest; however, institutions will need to perform to target to meet matching requirements
- Academic operations have balance sheet capacity after FY2021
  - a key struggle will be to generate revenue growth
- MU Healthcare has a history of strong operating performance
  - the key limiting factor will be prioritizing spending within balance sheet capacity
- Plans were built on the assumption that inflation would remain low, higher inflation will result in faster growth rates
Final Plans Meet Performance Targets on Consolidated Basis

- Cash to operations ends at 1.0 on target of 1.0
- Cash to debt ends at 3.0 on target of 2.0
- Cash flow to total debt remains better than target by 25%
Next Steps

- April 2022: Budget update and tuition and fee proposals
- June 2022: Board approves FY23 budget
- Fall 2022: Financial Plans revised and updated
- Jan/Feb 2023: Board approves revisions to targets

The key to our continued financial success is each individual university managing their operations in a financially sustainable manner, and responding to the key drivers identified.
Questions?