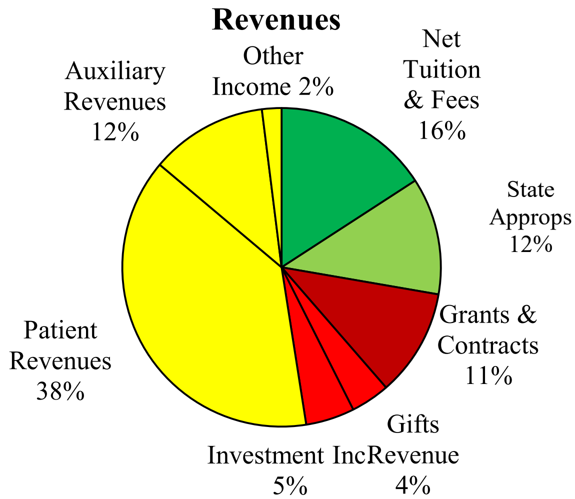
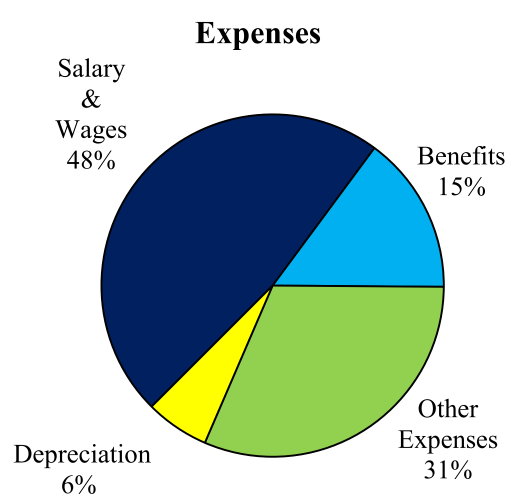
The Board will review the Fiscal Year 2020 University of Missouri System budget for approval at the June 20-21, 2019 meeting. The FY 20 all funds revenue budget is $3.5 billion, half of which is from auxiliary and patient revenues. The following table shows the FY 20 revenue budget by revenue source.

FY 20 Revenue Budget	MU	MU Hospitals	UMKC	S&T	UMSL	UM System	University Wide Units	Total
Net Tuition & Fees	$266.8	$0.0	$138.4	72.2	$83.9	($0.1)	($0.0)	$561.2
State Appropriations	217.8	0.0	73.9	50.2	55.9	12.3	9.5	419.6
Patient Revenues	249.6	1,063.2	38.6	0.0	0.0	0.0	0.0	1,351.4
Grants & Contracts	241.0	0.0	48.2	41.8	39.5	0.0	0.0	370.5
Gifts Revenue	82.7	1.8	16.3	14.0	16.5	0.1	0.0	131.4
Endowment & Investment Inc.	87.0	5.0	12.1	9.8	6.4	24.8	33.9	178.9
Auxiliary Revenues	275.1	24.9	42.4	21.9	19.5	24.0	0.0	407.9
Other Income	49.0	0.0	10.3	4.9	2.8	3.4	9.1	79.6
Total Revenue	$1,469.1	$1,094.9	$380.1	$214.9	$224.5	$64.5	$52.4	$3,500.5

The pie chart on the left shows the major sources of revenues across the University of Missouri. Auxiliary and Patient Service Revenues combine to account for 50% of the revenue budget. The remaining revenues fund the academic enterprise, with the majority coming from tuition and state appropriations. The chart on the right shows that 63% of the total budget is spent for compensation, 6% for depreciation and 31% of all other types of expenditures. Compensation remains the largest expense for the University of Missouri.

FY 20 All Funds Budget





Attached is the recommended action followed by supporting narrative and FY 20 summary budgets by fund group by campus.

No. 1

Recommended Action - UM Fiscal Year 2020 Operating Budget and Five-Year Financial Plan, UM

It was recommended by the respective Chancellors, endorsed by President Mun Y. Choi, recommended by the Finance Committee, moved by Curator ____________ and seconded by Curator __________, that the following recommendations be approved:

- that the President of the University System be authorized to develop the FY 20 budgets in accordance with the attached planning assumptions and financial summaries, which include the allocation of FY 20 state appropriations less 3.0% statutory withholdings.
- that the President of the University System be authorized to: (a) make required changes to working capital and reserve funds and (b) make supplemental allocations within the funds available to the several campuses and programs, such allocations to be made on the basis of priority and need. The President will report periodically to the Board of Curators any material changes in sources and uses of current funds;
- that the operating budget for FY 20 and allocation as stated herein can be modified as necessary by the President to bring the same into harmony with the state appropriations as finally approved by the governor and any withholdings in excess of those shown above.

Roll call vote Finance Committee:	YES	NO
Curator Brncic		
Curator Chatman		
Curator Layman		
Curator Steelman		

The motion ________________________

Roll call vote of Board of Curators:	YES	NO
Curator Brncic		
Curator Chatman		
Curator Farmer		
Curator Graham		
Curator Layman		
Curator Phillips		
Curator Snowden		
Curator Steelman		
Curator Sundvold		

The motion ________________

At the June meeting, Vice President for Finance Ryan Rapp will present the FY 20 budget and five-year plan. The five-year plan serves as the bridge between the strategic plan and the annual budget, which is the detailed financial plan for the current year. The financial plan will allow leaders to make strategic decisions that are in the institution's best financial interests with clear connections to the strategy.

The University has engaged Kaufman Hall to help develop and implement the five-year financial plans that will underpin the financial accountability. Charles Kim with Kaufman Hall will be present with Vice President Rapp to present the initial plans and financial performance targets to the Finance Committee. The baseline plans represent a forward-looking projection of the University's financial performance. The presentation has been included in the mailing materials, which also outline more detail around the operating budgets below.

<u>What is the Financial Plan?</u>

The integrated financial plan identifies where the institution wants to be over the course of multiple years and forces the leadership team to define how to get there strategically and financially. The strategic financial plan incorporates the entirety of financial performance, including capital investments, debt utilization and other items traditionally missed in operating budgets. To be effective, strategic and financial plans have to be highly interrelated and interdependent in order to achieve success on mission delivery while maintaining financial position.

A good financial plan will:

- Link the institution's strategic mission to measurable financial outcomes
- Identify which strategies can be supported financially given the institution's resource capacity
- Quantify future financial risk, consider alternative scenarios, and help determine reactions to changes
- Mitigate risk in a proactive manner
- Support decision making with better data and allow those decisions to be communicated throughout the organization
- Enable quicker action and flexibility in a more complex marketplace

<u>The FY 20 Financial Plan</u>

As a part of the finance transformation initiative, the University of Missouri has worked to develop a sustainable financial plan that:

- Identifies the need to grow revenues through new programs and transformation to reduce expenses
- Establishes a standard framework to assess campus/system financial performance, condition, and prospects
- Establish a clear set of "executables"
  - Financial performance targets
  - Strategic initiatives to pursue and related financial impacts

  - Required capital investment and related financing
  - Operating changes
- Establishes a process for each campus and the system for pro-active resource management and selective strategic investment
- Establishes a process for campus/system resource management that can be conducted just in time throughout the year

The financial plans that follow represent the viewpoint of the leadership team (including chancellors, provosts, and CFOs) on the long-term impacts of the strategies and initiatives they will undertake to advance the mission of their respective institutions, at this time. The plans were developed at a high-level with the best available data, but work will be continuous by university leadership teams to refine projections against better data and identify and monitor the execution risks of their plans.

Each University turned in a plan that was on target and had to make decisions to trade different aspects of strategic or operating plans to balance financial performance. In many cases, efficiency initiatives are necessary to identify how to close unfilled gaps in the plans. However, each university is now aware of the relationship between the levers on their plan and how they interrelate. They are also aware of the tradeoff between financial performance, investment, and ability to deliver on their respective mission.

The Future of Financial Planning at the University of Missouri

The University of Missouri finance team plans to continue with financial planning on an annual basis. Rather than completing the plan during the same time as the budget, financial planning will move into the fall before the next year budgeting exercise begins. The FY 21 financial planning exercise will begin this fall and build upon the work presented here, drilling deeper into specific initiatives for further quantification and risk identification. By completing financial planning in the fall, the financial plan will then inform the budgeting process and identify necessary investments and changes prior to the bottom up budget building process.

As a part of the FY 20 financial planning process, each University identified the available resources for capital investment over the upcoming 5 years. These resources will be used to identify and quantify the amount projected to be spent on the capital plan that will be presented to the Board this fall. This will help each University identify the capital projects that will be funded with internal sources and be completed without external giving or availability of state funding constraints.

Higher Education Market Context

As a whole, public higher education in the United States remains under significant pressure due to shifts in demographics driving market competitiveness. In their outlook published in December of 2018, Moody's notes the following forces:

- Net tuition growth will remain constrained with market competition, especially at public universities
- Cost control will become necessary, constraining programmatic and capital investments

- Rising labor costs remain the largest hurdle

Standard & Poor's shares a similar negative outlook, further noting that state and federal budget pressures will impact the amount of aid and appropriations available for institutions. Students and parents have become better shoppers, seeking decreases in cost of attendance with better service and amenities. This environment places significant pressure on all institutions, but especially those in the middle to lower end of the market.

Focus on Financial Accountability is the Key

In an environment with revenue challenges and upward pressures on expenses, having a system of control around financial planning and performance is key. The five year financial plan implemented this year drives a focus on the long-term impacts of these market trends and forces leaders to plan around these trends in a long-term and meaningful way. The budget represents this year's implementation of those plans, and the budget reflects those plans at a detailed level throughout the institution. The budget also serves as the guidepost for the year to which financial performance will be compared.

In the past, the University's budget simply aimed to balance revenues and expenses independent of the financial performance necessary to support the growth and support of the institution's strategy. In the past, budgets represented authorized spending levels. When the state appropriated the majority of funding in certain terms, controlling spending was the key to successful financial performance. Previous credit reports note the University of Missouri takes the appropriate steps to balance budgets, something not all higher education institutions have demonstrated the ability to do. However, future success will also be dependent on obtaining and growing revenues and managing within those expenses. Getting the university community to understand this and implement new models will take time, but is the key to the future of all of the universities in the system.

This year's budget represents the first year of the change in this focus. The budget was developed in concert with the financial plan, and focused on an all funds approach. The all funds approach means the finance teams focused on the entirety of their operations, not just the operating fund which now encompasses less than 35% of the University's operation, but also represents the academic core.

The UM System Finance team worked with each university to ensure the budget was in line with the financial plan and also in line with performance against expected targets. In some cases, the University's budgets submitted by lower level units did not meet the performance targets. In those cases, it is the responsibility of the leadership team to fill in the gaps throughout the year with a more continuous focus on financial performance. The leaders will still be held to the financial targets and have booked budgets that reflect performance on those targets. This year represents the trial run of the accountability process at the campus level, so leaders can learn how the process works and implement plans to address performance to lower levels of their institution.

FY 20 Budget Plan

Through the FY 20 budget cycle, the UM System Finance function implemented a new financial statement format for the budgeting process. The board should recognize the format as the same format utilized in the quarterly financial report and the format utilized in the annual financial performance update received in September. This is also the same format utilized by Kaufman Hall throughout the financial planning project. The format also ties closely to how rating agencies and investors evaluate the University's financial performance using a capital markets approach. The consistency in format makes metric calculations clear for the University's leadership team and reduces the confusion. The University will add budgets to the quarterly updates for the Board.

In the summaries that follow, the same income statement format will be presented with three columns:

- FY 18 Actuals: actual performance for FY18, tied to the University's audited financial statements.
- FY 19 Projected: projected performance for FY 19, which includes performance through March with a projection for the final 3 months to close.
- FY 20 Budget: budgets completed as of May 30, 2019 for FY 20.

Consolidated Summary

The University of Missouri FY 20 Budget overall demonstrates continued expected performance against financial performance expectation. This year's budget process has been significantly different than past year's at the University and System level. Using the spending based approach last year, the University's budget generated an operating margin of -0.2%. The University's budget process currently focuses heavily on the income statement and this year's budget generated an operating margin of 3.8%. The FY 20 Budgeted operating margin shows an improvement over the projected FY 19 year-end and is in line with performance from FY 18. Schedule 1 contains the detail on the operating budget on a consolidated basis:

Schedule 1. Consolidated FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	$861,913	$860,736	$885,824
2	Less Scholarship Allowances	294,481	300,775	324,628
3	Net Tuition and Fees	$567,432	$559,961	$561,196
4	Federal Pell Grants	$55,400	$55,815	$57,100
5	Grants and Contracts	292,335	296,972	313,397
6	Auxiliary Enterprises	407,858	414,054	407,851
7	Patient Medical Services Net	1,250,484	1,313,846	1,351,415
8	Other Operating Revenues	53,497	63,782	51,885
9	State Appropriations	401,705	409,738	419,575
10	Federal Appropriations	16,910	16,706	17,984
11	Private Gifts	77,851	82,754	87,815
12	Endowment/Investment Distribution	85,896	88,975	88,441
13	**Total Operating Revenues**	**$3,209,368**	**$3,302,601**	**$3,356,658**
	Operating Expenses			
14	Salaries and Wages	$1,497,841	$1,542,378	$1,569,639
15	Benefits	427,197	453,592	485,890
16	Supplies, Services and Other Operating Expenses	932,461	993,756	975,465
17	Depreciation	199,037	203,082	198,441
18	**Total Operating Expenses**	**$3,056,536**	**$3,192,808**	**$3,229,435**
19	**Net Operating Income**	**$152,833**	**$109,793**	**$127,223**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$196,867	$85,953	$178,901
21	Endowment/General Pool Distribution	(85,896)	(88,975)	(88,441)
22	Interest Expense	(69,411)	(64,317)	(63,741)
23	Build America Bond Subsidies	9,755	9,844	9,755
24	Other Nonoperating Revenues (Expenses)	(685)	3,214	8,801
25	State Capital Appropriations	29,765	-	-
26	Capital Gifts and Grants	21,083	48,183	16,516
27	Private Gifts for Endowment Purposes	46,851	30,165	27,105
28	Pension and OPEB Impact on Income Statement	(25,721)	(33,525)	(33,524)
29	Mandatory Transfers	-	-	-
30	Non-Mandatory Transfers	4,533	(216)	(4,584)
31	**Net Nonoperating Revenues (Expenses)**	**$127,141**	**($9,673)**	**$50,787**
32	Extraordinary Item	(17,908)		
33	**Increase in Net Position**	**$262,065**	**$100,120**	**$178,010**
34	**Operating Margin**	**4.8%**	**3.3%**	**3.8%**

As schedule 1 demonstrates, the University projects revenues to grow by 1.6%:

- Net Tuition and Fees are projected to remain flat year over year. This reflects growth in enrollment and price increases in gross tuition and fees, but these factors are both offset with increases in institutionally funded financial aid. FY 20 represents the last year where the graduating class at MU is larger than then incoming freshman class, meaning in future years this revenue line should grow with the improved focus on enrollment and retention. The long-term success of the academic enterprise hinges on successful growth of net tuition and fees.
- Grants and Contracts are projected to grow by 6% year over year. This is largely reflective of the University's efforts to improve research and creative works. The majority of this growth is reflected at MU, which is responsible for 70% of the sponsored activity across the System.
- State Appropriations will grow by over $10 million year over year. The growth represents the state's support for the Translational Precision Medical Complex (TPMC), for which the University received a line item appropriation. After years of flat to declining appropriations, Universities received an increase from the legislature and governor this year. The State Appropriations Request mailing item contains more information on the status of state funding.
- Net Patient Medical Services revenues are projected to grow by $38 million over FY 19 projection, representing 3% growth. The healthcare enterprise continues to grow at a faster rate than the remainder of the organization, although this growth is slowing after exceeding 5% for several years prior to FY 19 and FY 20. The gains experienced by the healthcare enterprise from market share capture are beginning to slow as the University has become the largest supplier in the market. As such, the MUHC leadership team has begun to focus on cost containment to preserve margin.

The University's operating expenses are projected to grow at a slower rate in FY 20 as a result of cost containment measures:

- Salaries and Wages are projected to grow by 1.7%. Each business unit was directed to incorporate a 2% pay increase for faculty and staff to be based on merit. The overall staffing is projected to remain flat to slightly decreased. In areas where budgets were reduced affecting personnel, the first priorities were towards capturing vacancies and retirements prior to reducing positions with incumbents.
- Benefits are projected to grow by 1.7% in line with salaries and wages. Benefits remain an area that will apply upward pressure on the institution's cost over the long-term, however, the University has taken significant action to curtail benefit costs. With the closure of the defined benefit plan to new entrants this October, the University will significantly slow the growth of the pension liability, though the pension plan will remain a significant exposure in the years to come. The University's medical cost growth remains below market averages, but long-term trends in medical cost still exceed inflation and average wage increases, placing pressures on other cost items.
- Supplies, Services, and Other is projected to decline by 1.8%. Part of the decline is the prior year increase from the voluntary separation program (VSP). Adjusting for VSP, Supplies, Services and Other would have increased by 1.5% year over year. The lower growth rate reflects an increased focus on non-personnel spend by the University, including focused programs to review large areas of non-personnel spend.

MU (Schedule 2)

The FY 20 MU budget planning process involved tasking every college/school/division (CSD) leader with analyzing how they would take a 5 and 10 percent reduction in general revenue for the year. Meetings were held with the leader and fiscal officer of each CSD to go over their scenarios. Each unit worked to protect the key investments that are important to the future of the University. Mizzou is focused on student success, strengthening research productivity and engaging with Missourians to help find solutions to grand challenges. The plan includes focused, strategic investments to ensure that happens. Schedule 2 represents MU's operating budget for FY 20:

Schedule 2. MU FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	$427,145	$420,401	$432,267
2	Less Scholarship Allowances	145,302	152,787	165,465
3	Net Tuition and Fees	$281,843	$267,614	$266,802
4	Federal Pell Grants	$20,403	$21,397	$22,100
5	Grants and Contracts	205,085	206,048	218,900
6	Auxiliary Enterprises	268,546	280,153	275,081
7	Patient Medical Services Net	223,150	238,678	249,630
8	Other Operating Revenues	29,000	39,372	31,005
9	State Appropriations	201,945	208,150	217,849
10	Federal Appropriations	16,910	16,706	17,984
11	Private Gifts	47,765	45,480	48,719
12	Endowment Distribution	47,123	49,226	49,155
13	**Total Operating Revenues**	**$1,341,770**	**$1,372,824**	**$1,397,225**
	Operating Expenses			
14	Salaries and Wages	$757,088	$780,881	$795,115
15	Benefits	204,759	217,368	233,398
16	Supplies, Services and Other Operating Expenses	254,322	271,408	259,339
17	Depreciation	83,261	85,960	82,352
18	**Total Operating Expenses**	**$1,299,429**	**$1,355,617**	**$1,370,204**
19	**Net Operating Income**	**$42,340**	**$17,207**	**$27,022**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$87,774	$35,607	$87,032
21	Endowment Distribution	(47,123)	(49,226)	(49,155)
22	Interest Expense	(31,010)	(31,527)	(32,279)
23	Other Nonoperating Revenues (Expenses)	241	925	71
24	State Capital Appropriations	3,694	-	-
25	Capital Gifts and Grants	6,908	16,972	12,016
26	Private Gifts for Endowment Purposes	41,412	24,523	22,004
27	Mandatory Transfers	205	347	-
28	Non-Mandatory Transfers	26,140	27,253	33,676
29	**Net Nonoperating Revenues (Expenses)**	**$88,241**	**$24,875**	**$73,364**
30	**Increase in Net Position**	**$130,581**	**$42,082**	**$100,385**
31	**Operating Margin**	**3.2%**	**1.3%**	**1.9%**

MU's margin for FY 20 will improve by approximately $10 million, moving from an operating margin of 1.3% to an operating margin of 1.9%. The margin improvement is largely driven by faster growth in grants and contracts, state appropriation (for TPMC) and growth in patient medical services.

To generate margin improvement, MU did have to focus on significant reductions and budget realignment to achieve the margin improvement. Reductions to colleges, schools or divisions were not across the board. Decisions regarding the level of reduction at each CSD were made after reviewing the numerous budget scenarios noted above.

In May, MU announced the rollout of a new budget model. The FY 21 budget cycle will serve as the first cycle under the new model, although a period of adjustment will be necessary to allow units to transition to the new model. A committee of faculty, staff and students worked with the MU leadership team to develop the new model. MU's former model was based on history, with incremental changes made on an annual basis. The historical model had numerous issues, including:

- Lack of transparency for budget holders on the allocation process
- History took precedence over productivity or centrality to mission
- Lack of shared accountability for the management of budget and outcomes. Revenue growth was the problem of very few individuals while expense management was everybody's problem.
- Resource allocation was a political process. The resource allocation model encouraged the status quo over innovation.
- Resources were not aligned to activity. There were no incentives to encourage better instruction, interdisciplinary collaboration, or enrollment of more students.

The new resource allocation model will allocate revenues to the colleges based on revenues generated and charge costs to the colleges for the resources consumed. A portion of funding will be retained in a Central Mission Support pool to allow for investment in the mission, strategic priorities, and to provide financial stability for unexpected short-term outcomes. The new resource allocation model will place significantly more responsibility on Deans and the faculty of a college to understand and manage the size of the operations within the revenues they generate. Where there are significant gaps (positive or negative) in resources between the old and new models, it is important for there to be a transition period from the old model to the new model to rationalize the changes made. The university's implementation of the financial accountability model will be important to ensure that leaders throughout the organization understand the adjustment to the new budget model is not optional and that difficult decisions will need to be made through the process.

UMKC (Schedule 3)

While UMKC remains financially challenged, with weak balance sheet and income statement metrics, the University is making important improvement to its financial performance. The FY 20 budget represents significant progress towards break even performance, with a budgeted net operating loss of $2 million after two straight years of operating losses: a $10 million loss in FY 18 and a projected loss of $6.4 million in FY 19.

This results in an improvement to the operating margin of $4 million. When non-operating revenue and expense is included, the budget is balanced with an overall increase in net position of $900,000.

Schedule 3. UMKC FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	$187,650	$188,696	$197,537
2	Less Scholarship Allowances	57,637	55,620	59,125
3	Net Tuition and Fees	$130,013	$133,076	$138,411
4	Federal Pell Grants	$13,548	$13,503	$13,500
5	Grants and Contracts	30,450	33,182	34,650
6	Auxiliary Enterprises	42,684	43,266	42,427
7	Patient Medical Services Net	36,421	37,957	38,604
8	Other Operating Revenues	10,843	12,380	10,313
9	State Appropriations	72,300	73,852	73,852
10	Federal Appropriations	-	-	-
11	Private Gifts	13,536	13,170	15,479
12	Endowment Distribution	9,607	9,732	9,777
13	**Total Operating Revenues**	**$359,402**	**$370,118**	**$377,013**
	Operating Expenses			
14	Salaries and Wages	$196,836	$194,443	$192,587
15	Benefits	56,519	56,020	59,530
16	Supplies, Services and Other Operating Expenses	89,793	99,792	102,728
17	Depreciation	26,609	26,290	24,426
18	**Total Operating Expenses**	**$369,757**	**$376,545**	**$379,271**
19	**Net Operating Income**	**($10,355)**	**($6,427)**	**($2,258)**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$17,186	$8,647	$12,096
21	Endowment Distribution	(9,607)	(9,732)	(9,777)
22	Interest Expense	(9,445)	(9,154)	(9,098)
23	Other Nonoperating Revenues (Expenses)	(29)	(2,498)	8,992
24	State Capital Appropriations	13,821	-	-
25	Capital Gifts and Grants	7,450	29,685	-
26	Private Gifts for Endowment Purposes	365	315	800
27	Mandatory Transfers	13	-	-
28	Non-Mandatory Transfers	4,318	1,577	176
29	**Net Nonoperating Revenues (Expenses)**	**$24,072**	**$18,841**	**$3,190**
30	Extraordinary Item	(17,908)		
31	**Increase in Net Position**	**($4,191)**	**$12,414**	**$932**
32	**Operating Margin**	**(2.9%)**	**(1.7%)**	**(0.6%)**

As UMKC began development of the FY 20 budget, the University focused on reallocating resources in order to achieve balance, rebuild reserves and fund strategic initiatives. Reductions included elimination of 95 positions, of which 59 were filled. The majority of those filled positions resulted from tenured faculty VSP resignations. The University has restored funding for approximately 34 of those positions in FY 20. Other budget categories were realigned in order to reallocate resources to fund strategic initiatives, and units were asked to self-fund merit increases and the increase in the benefit cost.

The FY 20 budget includes investment in student success initiatives, including recruitment and admissions, counseling services, bridge programs, academic support, increased financial aid, peer mentoring and other initiatives aimed at attracting and retaining students. In an effort to build up the University's research enterprise, the FY 20 budget also includes funding for the newly established Data Science Institute and an expansion of the Office of Research Services. Another University initiative, Talent Link, will generate non-credit bearing revenue and increase engagement and opportunities with the community. Investment in infrastructure has also been a priority for the campus, and the University has added additional funding for its annual campus maintenance and repairs. The University has funded its commitment to match the President's strategic compacts.

S&T (Schedule 4)

Missouri S&T's FY 20 budget planning process presented significant revenue headwinds related to growth challenges. After years of positive performance, the FY 20 budget currently projects an operating margin of 0.8%, largely driven by a significant decline in tuition revenues. Schedule 5 demonstrates S&T's FY 20 operating budget.

Line No.	Schedule 4. S&T FY20 Budget as of May 30, 2019 (Dollars in Thousands)	Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	$131,909	$132,834	$131,180
2	Less Scholarship Allowances	51,448	52,394	58,994
3	Net Tuition and Fees	$80,461	$80,441	$72,187
4	Federal Pell Grants	$7,370	$7,163	$7,500
5	Grants and Contracts	32,498	31,044	34,300
6	Auxiliary Enterprises	25,607	24,428	21,947
7	Patient Medical Services Net	-	-	-
8	Other Operating Revenues	5,253	3,938	4,927
9	State Appropriations	49,410	50,186	50,234
10	Federal Appropriations	-	-	-
11	Private Gifts	3,258	9,164	6,727
12	Endowment Distribution	8,346	9,154	8,662
13	**Total Operating Revenues**	**$212,203**	**$215,517**	**$206,483**
	Operating Expenses			
14	Salaries and Wages	$107,373	$105,735	$105,280
15	Benefits	30,424	30,527	32,744
16	Supplies, Services and Other Operating Expenses	53,442	49,148	49,625
17	Depreciation	16,308	17,034	17,146
18	**Total Operating Expenses**	**$207,547**	**$202,443**	**$204,795**
19	**Net Operating Income**	**$4,656**	**$13,074**	**$1,688**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$14,912	$6,521	$9,753
21	Endowment Distribution	(8,346)	(9,154)	(8,662)
22	Interest Expense	(5,405)	(5,741)	(5,160)
23	Other Nonoperating Revenues (Expenses)	(723)	59	5
24	State Capital Appropriations	3,686	-	-
25	Capital Gifts and Grants	4,827	1,375	4,500
26	Private Gifts for Endowment Purposes	3,576	1,690	2,800
27	Mandatory Transfers	(142)	(142)	-
28	Non-Mandatory Transfers	584	3,108	691
29	**Net Nonoperating Revenues (Expenses)**	**$12,969**	**($2,284)**	**$3,927**
30	**Increase in Net Position**	**$17,625**	**$10,790**	**$5,616**
31	**Operating Margin**	**2.2%**	**6.1%**	**0.8%**

Missouri S&T faces significant challenges in tuition revenue for FY 20. The University is currently experiencing declines in high margin, non-resident master's degree programs and international students while the first time freshman enrollment is trending behind prior year. Additionally, the University is increasing scholarships in an effort to enhance yield and shape a better student mix, but the enrollment numbers have not changed. The downward trend in revenues necessitated a significant cost adjustment for FY 20.

Missouri S&T undertook a process to assess priorities and implement reductions of 0% to 100% of units across the University. Tenured faculty lines including those from the VSP will be held on hiring until revenue growth turns around. In addition to the reductions from VSP, S&T plans to significantly reduce administrative and staff positions through a combination of eliminating vacancies, retirements, and layoffs when additional reductions are necessary.

UMSL (Schedule 5)

UMSL is projecting solid financial performance in FY 20 and has budgeted a surplus of approximately $7 million. This represents the best estimate at year-end.

Schedule 5. UMSL FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	$115,209	$118,804	$124,841
2	Less Scholarship Allowances	39,974	39,868	40,941
3	Net Tuition and Fees	$75,235	$78,936	$83,900
4	Federal Pell Grants	$14,079	$13,751	$14,000
5	Grants and Contracts	24,266	25,993	25,523
6	Auxiliary Enterprises	18,236	15,949	19,452
7	Patient Medical Services Net	44	34	-
8	Other Operating Revenues	2,852	3,317	2,827
9	State Appropriations	55,817	55,817	55,914
10	Federal Appropriations	-	-	-
11	Private Gifts	11,593	13,364	14,999
12	Endowment Distribution	4,851	4,885	5,144
13	**Total Operating Revenues**	**$206,973**	**$212,046**	**$221,760**
	Operating Expenses			
14	Salaries and Wages	$103,741	$104,829	$110,644
15	Benefits	30,938	31,837	35,543
16	Supplies, Services and Other Operating Expenses	51,208	57,532	48,526
17	Depreciation	16,626	17,911	17,332
18	**Total Operating Expenses**	**$202,513**	**$212,110**	**$212,045**
19	**Net Operating Income**	**$4,460**	**($64)**	**$9,715**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$8,640	$3,795	$6,415
21	Endowment Distribution	(4,851)	(4,885)	(5,144)
22	Interest Expense	(6,184)	(5,985)	(5,776)
23	Other Nonoperating Revenues (Expenses)	178	31	(200)
24	State Capital Appropriations	8,564	-	-
25	Capital Gifts and Grants	1,002	951	-
26	Private Gifts for Endowment Purposes	1,483	3,623	1,500
27	Mandatory Transfers	(124)	(132)	-
28	Non-Mandatory Transfers	6,820	1,018	450
29	**Net Nonoperating Revenues (Expenses)**	**$15,528**	**($1,584)**	**($2,756)**
30	**Increase in Net Position**	**$19,988**	**($1,648)**	**$6,959**
31	**Operating Margin**	**2.2%**	**(0.0%)**	**4.4%**

The FY 20 budget currently contains a $3.5 million performance challenge for UMSL and a distributed commitment to reduce non-labor discretionary spend by $2.2 million. UMSL will close this gap through monthly financial management and performance reporting. The FY 20 budget represents an improvement in financial performance and is enabled by investments already made in FY 19, such as increases to labor for the purpose of increasing retention, additions to staff and related expenses for recruiting and enrollment management functions, increases in areas of strategic consulting and IT tools related to admissions, financial aid, and enrollment, investments to develop the international program, and the launch of new academic degree programs. These investments and additions continue into FY 20 and are highlighted by these key areas:

- Addition of highly demanded degree programs with strong labor market demand for graduates and adult learners. These include Cybersecurity, Computer Technology, Entrepreneurship, Sport Management, Actuarial Science and Organizational Leadership;
- Increase in retention and student success through investment in labor, software and strategic consulting services;
- Leverage of the scholarship compact with additional needs-based and merit awards to attract new students;
- A realistic but success-oriented international pipeline;
- Continue to challenge faculty and staff productivity;
- Drive down existing non-labor discretionary spend where possible, and add when return on investment is positive or when strategically advantageous;
- Manage available space and drive down excess.

MUHC (Schedule 6)

University of Missouri Health Care's (MUHC) FY 20 budget is a product of an extensive planning process. The roadmap for achieving our strategic objectives and ensuring the clinical, research and teaching missions are achieved continues to provide the direction in investments. Coming off five solid years of financial performance, MUHC has set the foundation for strategic long-term investments.

Schedule 6. MUHC FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Actuals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	-	-	-
2	Less Scholarship Allowances	-	-	-
3	Net Tuition and Fees	-	-	-
4	Federal Pell Grants	-	-	-
5	Grants and Contracts	36	68	24
6	Auxiliary Enterprises	23,682	23,513	24,896
7	Patient Medical Services Net	990,868	1,037,177	1,063,181
8	Other Operating Revenues	27	1	12
9	State Appropriations	-	-	-
10	Federal Appropriations	-	-	-
11	Private Gifts	1,584	1,481	1,776
12	Endowment Distribution	-	-	37
13	**Total Operating Revenues**	**$1,016,197**	**$1,062,240**	**$1,089,926**
	Operating Expenses			
14	Salaries and Wages	$300,628	$324,964	$332,250
15	Benefits	96,842	105,889	113,040
16	Supplies, Services and Other Operating Expenses	471,094	498,592	506,934
17	Depreciation	46,623	46,750	48,646
18	**Total Operating Expenses**	**$915,187**	**$976,195**	**$1,000,871**
19	**Net Operating Income**	**$101,010**	**$86,045**	**$89,055**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$10,007	($1,381)	$4,996
21	Endowment Distribution	-	-	(37)
22	Interest Expense	(12,807)	(12,194)	(11,249)
23	Other Nonoperating Revenues (Expenses)	(295)	(140)	(72)
24	State Capital Appropriations	-	-	-
25	Capital Gifts and Grants	896	-	-
26	Private Gifts for Endowment Purposes	14	14	-
27	Mandatory Transfers	-	-	-
28	Non-Mandatory Transfers	(24,430)	(17,068)	(23,694)
29	**Net Nonoperating Revenues (Expenses)**	**($26,615)**	**($30,769)**	**($30,056)**
30	**Increase in Net Position**	**$74,395**	**$55,276**	**$58,999**
31	**Operating Margin**	**9.9%**	**8.1%**	**8.2%**

This presentation format matches the higher education presentation of revenues and expenses. The health system follows the healthcare convention in their presentations to the Health Affairs Committee. The main difference is the classification of gift revenues (line 11) which is an operating revenue in higher education and a non-operating item in healthcare.

Executive leadership worked collaboratively with leadership in the School of Medicine (SOM) to develop the core patient volumes for the plan. Financial targets were built based on those volumes, key financial and operational assumptions and performance expectations. A multidisciplinary leadership team reviewed requests for additional operating and capital investments. Approved investments were added to the financial plan. In May 2018, MUHC executive leadership approved the final financial plan.

The health care service sector is expected to see continued downward pressure on operating margins reflecting inflationary cost increases, continued downward pressure on third-party reimbursements, and moderate organic growth. Reimbursement rates continue to be a focus for MUHC with shifts to value-based versus volume initiatives, increasing risks to net revenues. Medicaid reimbursement, specifically, is an area with recent payment reductions and uncertainty of future reductions. Inflationary cost increases are projected to exceed aggregate reimbursement rate increases. Despite these headwinds, MUHC's FY 19 operating margin exceeds the 75th percentile of peer academic medical organizations and MUHC's FY 19 plan increases CARTS funding to the SOM and provides investments in the clinical mission with our University Physician partners.

The FY 20 MUHC budget reflects an $86 million operating margin. Mike Blair will present further detail on MUHC's budget plan at the June Health Affairs Committee Meeting.

UM System (Schedule 7)

The UM System Business Unit includes the administrative and support functions including service centers that provide unduplicated support to the four campuses and health system. The FY 20 budget for expenditures at UM System is down slightly as demonstrated in Schedule 7:

Schedule 7. UMSYS FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Acutals FY2018	Projected FY2019	Budget FY2020
	Operating Revenues			
1	Tuition and Fees	$0	$0	$0
2	Less Scholarship Allowances	87	106	71
3	Net Tuition and Fees	($87)	($106)	($71)
4	Federal Pell Grants	$0	$0	$0
5	Grants and Contracts	1	636	-
6	Auxiliary Enterprises	29,103	26,745	24,048
7	Patient Medical Services Net	-	-	-
8	Other Operating Revenues	6,154	4,774	3,432
9	State Appropriations	12,766	12,266	12,258
10	Federal Appropriations	-	-	-
11	Private Gifts	113	95	113
12	System Investment Distribution	20,616	22,132	21,821
13	**Total Operating Revenues**	**$68,666**	**$66,543**	**$61,602**
	Operating Expenses			
14	Salaries and Wages	$31,984	$31,526	$33,764
15	Benefits	10,568	10,612	11,369
16	Supplies, Services and Other Operating Expenses	12,542	14,710	10,780
17	Depreciation	4,844	4,371	3,773
18	**Total Operating Expenses**	**$59,938**	**$61,219**	**$59,685**
19	**Net Operating Income**	**$8,728**	**$5,324**	**$1,917**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$24,326	$5,537	$24,753
21	System Investment Distribution	(20,616)	(22,132)	(21,821)
22	Interest Expense	-	-	-
23	Other Nonoperating Revenues (Expenses)	(57)	4,836	5
24	State Capital Appropriations	-	-	-
25	Capital Gifts and Grants	-	-	-
26	Private Gifts for Endowment Purposes	-	-	-
27	Mandatory Transfers	-	-	-
28	Non-Mandatory Transfers	(3,862)	(4,121)	(883)
29	**Net Nonoperating Revenues (Expenses)**	**($209)**	**($15,881)**	**$2,054**
30	**Increase in Net Position**	**$8,519**	**($10,556)**	**$3,971**
31	**Operating Margin**	**12.7%**	**8.0%**	**3.1%**

For the FY 20 budget cycle, System asked each unit leader to respond to a five and ten percent budget reduction scenario. Each leader then submitted reductions, which were evaluated by the leadership team. In total, the System reduced spend by $1.5 million to allocate funds towards strategic initiatives including TPMC and E-Learning.

University-wide Units (Schedule 8)

University-wide Business Units are used to hold resources and deliver programs that are utilized by the entire institution. These include the endowed chair programs that were established with recurring state appropriation to match endowment distributions, self-insurance related to health, welfare and risk management programs, and activities of the central bank. Most of the activity in the University-wide units relates to consolidating entries for non-operating items that is not spread to the other Universities, primarily related to the benefit plans and investment performance.

Schedule 8. University-Wide Units FY20 Budget as of May 30, 2019 (Dollars in Thousands)

Line No.		Acutals FY 2018	Projected FY 2019	Budget FY 2020
	Operating Revenues			
1	Tuition and Fees	-	-	-
2	Less Scholarship Allowances	34	-	33
3	Net Tuition and Fees	($34)	$0	($33)
4	Federal Pell Grants	-	-	-
5	Grants and Contracts	(1)	-	-
6	Auxiliary Enterprises	2	-	-
7	Patient Medical Services Net	-	-	-
8	Other Operating Revenues	(633)	0	(631)
9	State Appropriations	9,467	9,467	9,467
10	Federal Appropriations	-	-	-
11	Private Gifts	2	-	2
12	Endowment Distribution	(4,647)	(6,155)	(6,155)
13	**Total Operating Revenues**	**$4,156**	**$3,312**	**$2,650**
	Operating Expenses			
14	Salaries and Wages	$191	-	-
15	Benefits	(2,853)	1,339	266
16	Supplies, Services and Other Operating Expenses	60	2,575	(2,468)
17	Depreciation	4,766	4,766	4,766
18	**Total Operating Expenses**	**$2,164**	**$8,679**	**$2,565**
19	**Net Operating Income**	**$1,992**	**($5,367)**	**$85**
	Nonoperating Revenues (Expenses)			
20	Investment Income (Losses), Net of Fees	$34,022	$27,227	$33,855
21	Endowment Distribution	4,647	6,155	6,155
22	Interest Expense	(4,560)	284	(178)
23	Build America Bond Subsidies	9,755	9,844	9,755
24	Other Nonoperating Revenues (Expenses)	-	-	-
25	State Capital Appropriations	-	-	-
26	Capital Gifts and Grants	-	(800)	-
27	Private Gifts for Endowment Purposes	1	0	1
28	Pension and OPEB Impact on Income Statement	(25,721)	(33,525)	(33,524)
29	Mandatory Transfers	48	(73)	-
30	Non-Mandatory Transfers	(5,037)	(11,982)	(15,000)
31	**Net Nonoperating Revenues (Expenses)**	**$13,155**	**($2,871)**	**$1,064**
32	**Increase in Net Position**	**$15,147**	**($8,238)**	**$1,149**

Fund Accounting View

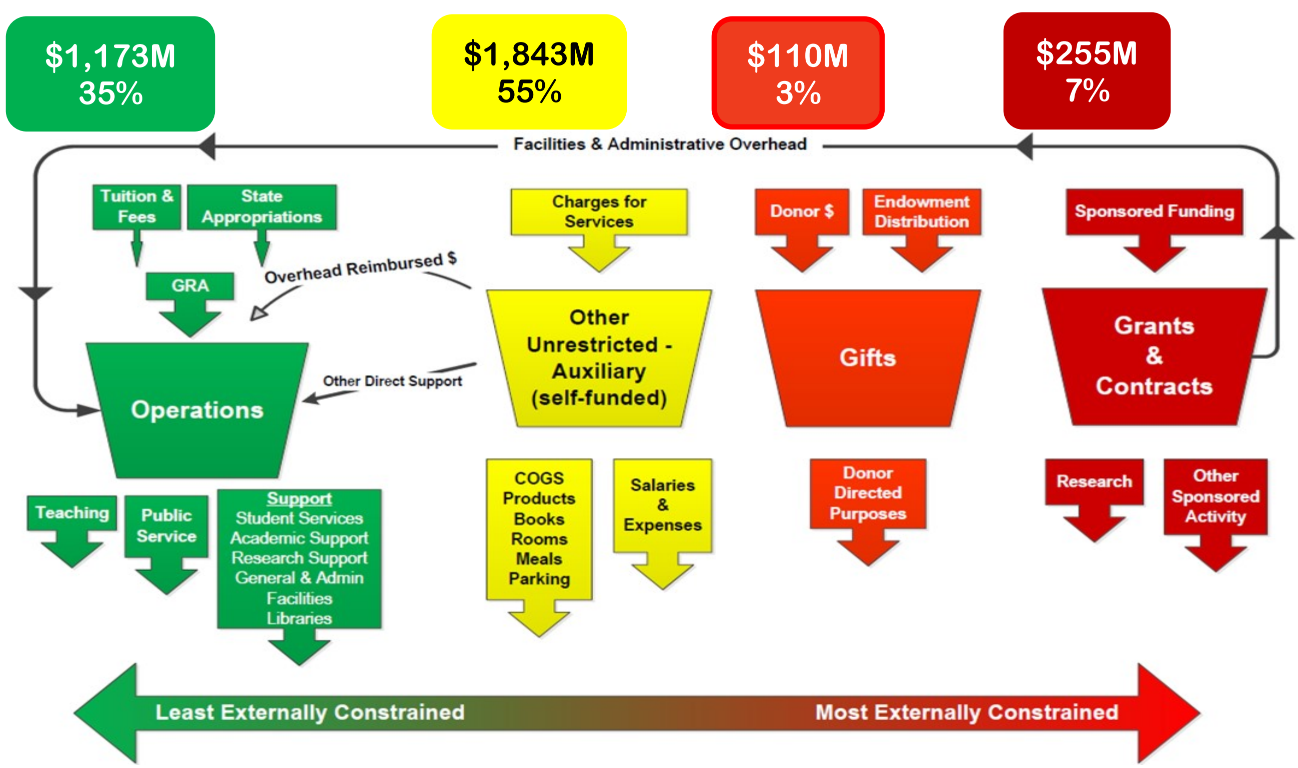
The following section shows the fund accounting format on the consolidated level. The University will still utilize the fund accounting format internally and it remains important for internal users. Fund accounting segregates the enterprise into its different components. However, it also leads focusing leaders mainly on the operating fund which constitutes a smaller and smaller portion of the overall enterprise over time. The segregation of current and non-current funds and the institution's historical focus on mainly current funds has led to a shorter-term focus. The separation of plant funds and lack of related consistent funding streams drives leaders to focus away from capital investment, a long-term risk for the organization. Shifting to the new format, which accounts for capital costs in operating income, and a better capital planning process will help the University address these problems over time. Presenting and focusing on the new format will clarify that our leaders are accountable for the entire enterprise and should look across it, not just the portion that accounts for state and student money.

Current Fund Budgets

Current funds include resources of the University that are expendable for any purpose directly related to the primary missions of the University, i.e., instruction, research, public service, and economic development as well as related support services. Current funds are further broken down into fund groups, depending on their purpose and external restrictions. Current funds generally drive the "Operating" items in the formats utilized above.

The diagram below shows funding streams spending flexibility of current funds.

Current Fund Budget Diagram



The operations fund, shown in green on the chart is where the bulk of the University's teaching, academic creative works, public service, and supporting service activities occur. Its primary funding sources are tuition and fees and state appropriations, although it does receive some support from unrestricted auxiliary and other enterprise like operations in the form of overhead payments for services provided by the operations fund (such as accounting, procurement, legal, grant management, facilities, etc.). In addition, the operations fund receives facilities and administrative cost recovery funding from grants and contracts to partially offset the costs of providing space and support services (overhead) to grants and contracts. Operations fund revenues are the most valuable because they are the least constrained by third parties. Operations fund revenues contribute 35% of total current fund revenues.

Other unrestricted funds are shown in shades of yellow on the chart. The primary source of funding for this group is fees for services provided. These operations are treated as separate enterprises and are expected to set fees for their services to cover their current operating costs plus depreciation, which is set aside for future capital and equipment replacement. Included in this category are University Hospitals and Clinics, student auxiliaries (housing, dining, bookstores, and recreation centers), intercollegiate athletics, student unions, research reactor, service operations (energy management, facilities design and construction, telecommunications, etc.), continuing education and self-insurance funds. These activities comprise 55% of the current fund budget.

Third parties, primarily donors and granting agencies, restrict the remainder of the current funds. These funds are shown in red on the chart because there is very little flexibility in how the funds are spent. The primary funding sources are gifts, spendable distributions from the endowment funds, and external grants and contracts. Grants and contracts are primarily for specific research, although some grants and contracts fund public service and instructional activities. This fund is also where federal financial aid is budgeted and accounted for due to the restricted nature of these funds. Restricted funds contribute 10% of the current funds budget.

Loan, Endowment, and Plant Fund Budgets

Loan, endowment and plant funds primarily affect the University's balance sheet and make up only about 2% of the revenue budget. The primary funding streams for the plant fund are investment from the university's current funds, capital gifts, and capital appropriations. The primary uses of funds are for debt payments and capital expenditures. Because capital expenditures are investment in the physical plant, the primary expenses in the plant fund are interest expense and depreciation.

The primary funding streams for loan and endowment funds are gift revenue and investment returns. These gifts are typically permanently restricted. The loan fund benefits the university's students by providing loans to students. The endowment fund's spending distribution provides endowment income to the current funds. In public universities, these funds are primarily restricted in use by the donor and provide funding for scholarships, professorships, and other university support.

Schedule 9 provides the consolidated budget by fund type:

Schedule 9. University of Missouri Budget Planning: FY20 Budget as of May 30, 2019 (Dollars in Millions)

	Operations	Other Unrestricted	Auxiliary Enterprises	Hospital Operations	Restricted Funds	Total Current Funds	Loan, Endowment, and Plant Funds	Total All Funds
Revenues								
Tuition and Fees	$827.6	$57.7	$0.0	$0.0	$0.4	$885.6	$0.2	$885.8
Less: Scholarship Allowances	(222.0)	(0.4)	0.0	0.0	(102.2)	(324.6)	0.0	(324.6)
Net Student Fees	$605.6	$57.2	$0.0	$0.0	($101.8)	$561.0	$0.2	$561.2
State Appropriations	414.5	0.0	0.0	0.0	5.1	419.6	0.0	419.6
Grants and Contracts	0.0	0.0	0.0	0.0	370.1	370.1	0.4	370.5
Gift Income	4.3	0.0	13.6	0.0	65.5	83.5	48.0	131.5
Recovery of F & A	49.0	0.0	0.0	0.0	(49.0)	0.0	0.0	0.0
Endowment & Investment Income	39.5	25.0	0.6	4.9	52.5	122.5	56.4	178.9
Sales & Services & Patient Revenue	23.2	3.3	644.7	1,088.0	0.1	1,759.3	0.0	1,759.3
Miscellaneous Income	37.3	5.9	0.0	0.0	25.2	68.4	11.2	79.6
Total Revenues	$1,173.4	$91.4	$658.9	$1,092.9	$367.7	$3,384.4	$116.1	$3,500.5
Expenditures								
Salaries & Wages	$662.5	$53.9	$356.1	$332.2	$165.0	$1,569.6	$0.0	$1,569.6
Employee Benefits	210.6	53.7	93.4	113.0	48.8	519.4	0.0	519.4
Total Compensation	873.1	107.5	449.5	445.2	213.8	2,089.0	0.0	2,089.1
Operating Expense	232.6	(73.0)	154.0	506.2	125.7	945.5	30.0	975.5
Capital Expense & Offset	20.1	0.3	2.5	0.0	6.9	29.7	(29.7)	0.0
Interest Expense	0.0	0.0	0.0	(0.2)	0.0	(0.3)	55.2	54.9
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	198.4	198.4
Total Expenditures	$1,125.7	$34.8	$605.9	$951.1	$346.4	$3,063.9	$254.0	$3,317.9
Internal Transfers (In) Out	($30.8)	$50.6	($22.3)	$17.5	$0.0	$14.9	($15.0)	($0.1)
Mandatory Transfers (In) Out	20.4	9.5	67.7	24.8	(1.1)	121.4	(121.4)	0.0
Non-Mandatory Transfers (In) Out	15.7	22.5	8.2	6.2	2.3	54.8	(50.1)	4.7
Total Transfers	$5.3	$82.5	$53.5	$48.5	$1.2	$191.0	($186.4)	$4.6
Change in Net Assets	$42.5	($26.0)	($0.5)	$93.2	$20.3	$129.5	$48.5	$178.0

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

KaufmanHall
Exceptional Partners. Exceptional Performance.

Financial Plan Development
Board of Curators Meeting

Columbia, MO | June 20, 2019

Contents

1 Financial Planning Project Goals

As part of the financial transformation initiative, the Missouri System engaged Kaufman Hall to assist campuses with the development of a sustainable financial plan that:

- Establishes a standard framework to assess campus/system financial performance, condition and prospects
- Establishes a clear set of "executables"
  - financial performance targets
  - set of strategic initiatives and related financial impacts
  - required capital investments and financing transactions
  - operating changes
- Identifies and quantifies potential resources and risks
- Establishes a process for each campus and the system
  - for pro-active resource management and selective investment
  - that can be conducted just-in-time throughout the year

1 Proposed Targets for Consolidated, Campuses and MUHC

- Below are proposed management metrics and targets that would likely maintain the Missouri System (as a consolidated organization) credit rating with Moody's Investors Service at Aa1.
- Credit ratings depend also on several qualitative factors.

	Moody's (A)				Consol-	Campus Targets (B)				
Ratio	**Aa1**	**Aa2**	**Aa3**	**A1**	**idated (C)**	**MU**	**UMKC**	**S&T**	**UMSL**	**MUHC (D)**
1) Annual Revenue Growth (E)	NA	NA	NA	NA	3.1%	2.4%	2.3%	3.4%	3.3%	5.0%
2) Operating Margin	3.2%	2.6%	1.0%	(1.1%)	>5.0%	>3.5%	>0.0%	>3.0%	>3.0%	>8.0%
Operating Cash Flow Margin	*12.6%*	*11.4%*	*10.7%*	*10.4%*	*>13.0%*	*>12.0%*	*>8.5%*	*>12.0%*	*>13.0%*	*>15.0%*
3) Spendable Cash & Invest. / Ops	0.86	0.68	0.69	0.63	>1.00	>0.80	>0.45	>0.80	>0.50	>200 DCOH
4) Avg. Debt Service Coverage	4.4	2.9	2.7	2.1	>4.0	>3.5	>2.5	>3.0	>3.5	>4.0
5) Spendable Cash & Invest. / Debt	2.2	1.2	1.2	1.1	>2.0	>1.6	>0.7	>1.3	>1.0	>1.5
6) Total Debt to Cash Flow	3.4	5.0	4.9	5.7	<4.0	<4.5	<7.0	<4.8	<4.5	NA

Note (A): Medians for peers and Moody's are based on MFRA financial data for higher education.
Note (B): Proposed targets are preliminary and may be adjusted as the System works with the campuses to develop strategic financial plans.
Note (C): Consolidated represents Columbia, KC, S&T, UMSL, Hospital, and System Administrative Offices.
Note (D): Moody's methodology for calculating all healthcare metrics is different from higher education. DCOH = days cash on hand.
Note (E): Targets for revenue growth were set after operating expense, capital expenditure, initiative, and balance sheet objectives had been planned.

2

Strategic and Operating Initiatives
The Process

- Working from "baseline" financial projections developed last March, each Campus has had multiple committees evaluate proposed initiatives for feasibility, strategic value, and cost.
- The Campuses and MUHC has engaged executive leadership to quantify numerous initiatives. Campus Chancellors and Provosts are working with their CFOs to plan and prioritize within resource constraints.
- Campus planning focused first on strategic compacts, but included several operating initiatives to enhance revenues and manage costs

Strategic and Operating Initiatives
Financial Performance and Key Assumptions

2

- Identified initiatives are projected to close the baseline operating gap
- New revenues are vital to improve financial performance
  - Tuition revenue increases more than $100m, primarily through enrollment growth and new programs
  - Clinical revenue increases more than $140m with significant new revenue from Cardiovascular, Specialty Pharmacy, and Primary Care/MOB
  - Private gifts more than double from FY18 to FY23
- Other key components of the financial plan include:
  - Strategic Compacts
  - System Funding for Student Success, Research, and Engagement
  - TPMC
  - Approximately $40 million in expense efficiencies and reductions
- Financial performance will depend on a culture of accountability

2 Strategic and Operating Initiatives

Execution and Risks

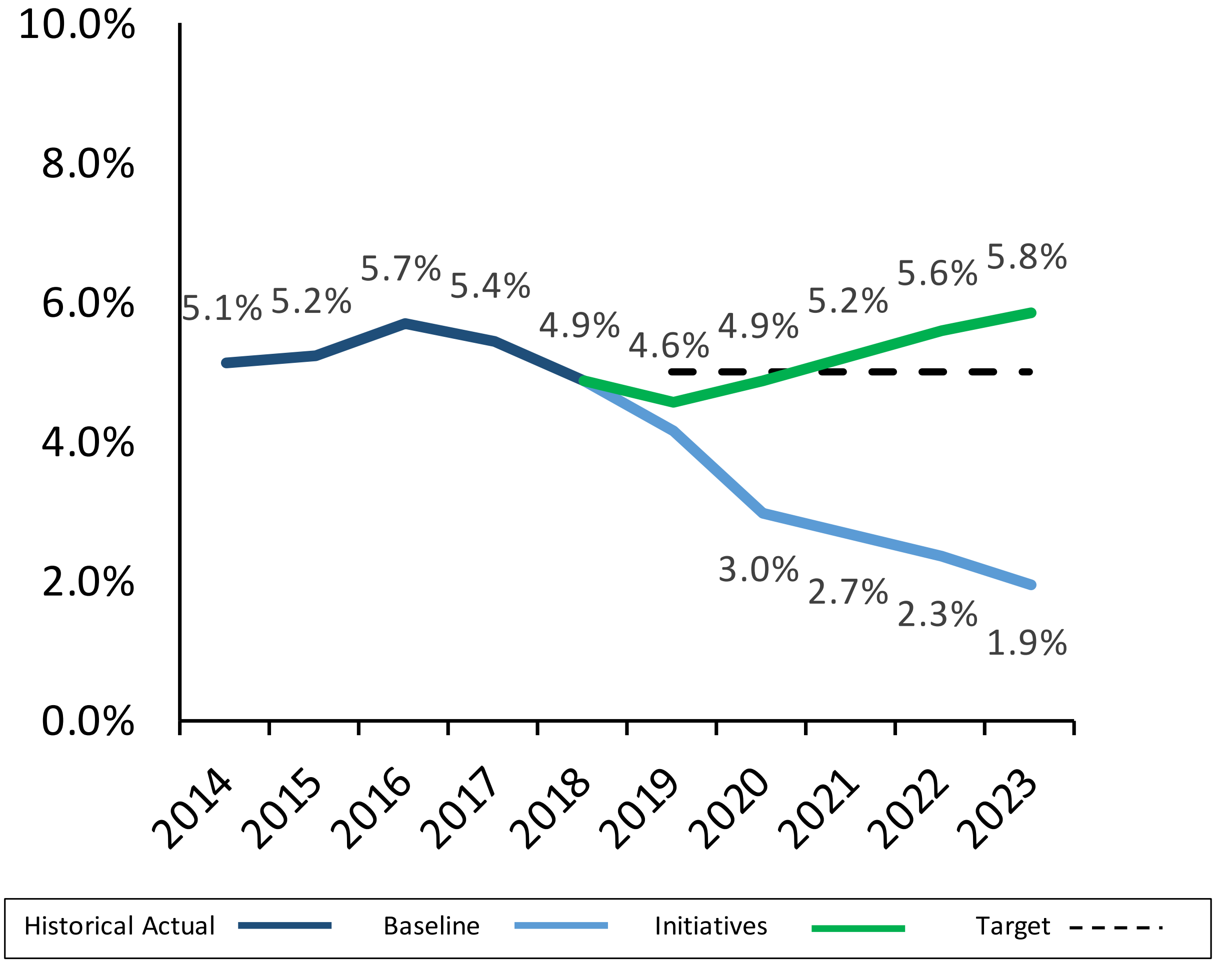
- Initiatives are a preliminary road map; all initiatives are reasonable, but some are aggressive and most are in a very early stage of planning
- Expenses are contingent on planned revenues; planned revenues must be realized to invest in faculty, staff and facilities
- Many difficult decisions are ahead; several decisions remain to prioritize limited resources and focus programs and space utilization

3

Strategic Financial Projection
Operating Surplus (Deficit) ($Ms)

Note(A): Consolidated represents Columbia, KC, S&T, UMSL, Hospital, and system administrative Offices and is calculated per Moody's higher education methodology.

3 Strategic Financial Projections
Operating Margin

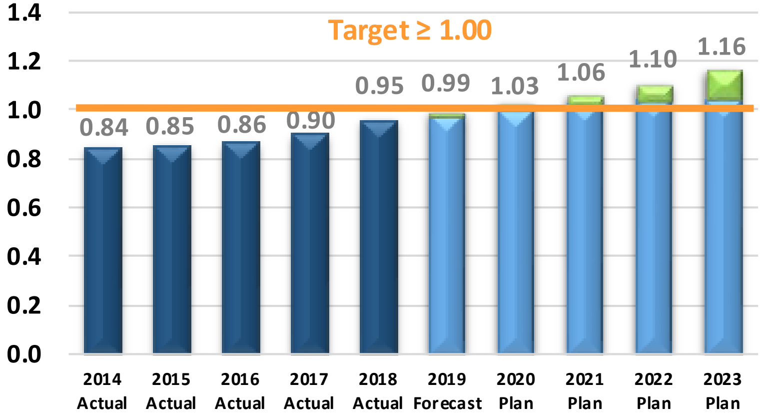


Note(A): Consolidated represents Columbia, KC, S&T, UMSL, Hospital, and system administrative Offices and is calculated per Moody's higher education methodology.

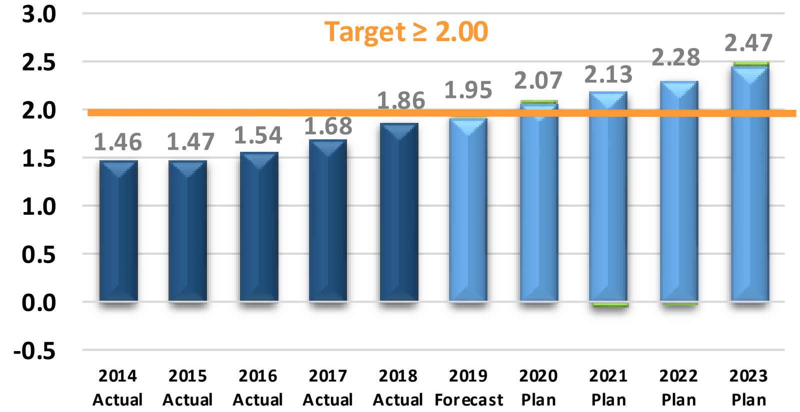
3 Strategic Financial Projections

Liquidity and Leverage Key Metrics

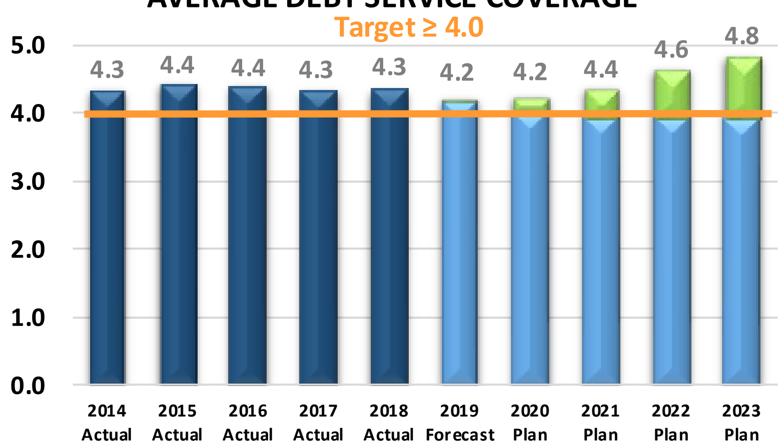
SPENDABLE CASH & INVESTMENTS / OPERATING EXPENSE



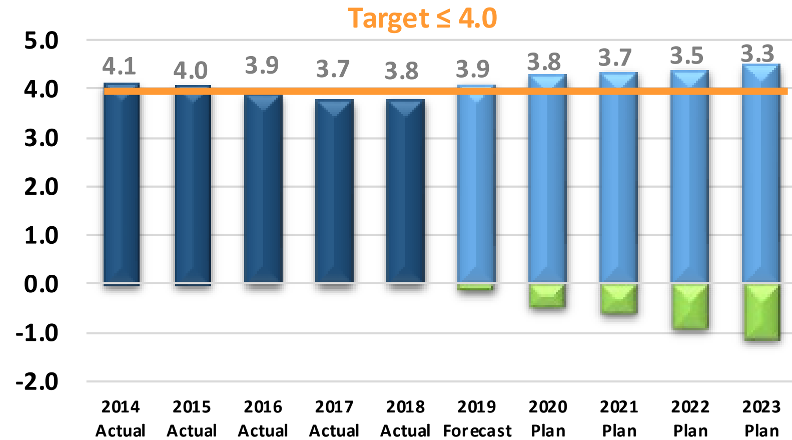
SPENDABLE CASH & INVESTMENTS / DEBT



AVERAGE DEBT SERVICE COVERAGE



DEBT / CASH FLOW



4 Next Steps

- The University of Missouri finance team plans to continue with financial planning on an annual basis:
  - Develop and adopt a Financial Planning Policy around target management/accountability, use of reserves/debt, and budgeting
  - Move financial planning to the Fall – before next year's budgeting exercise begins – to inform the budgeting process and identify necessary investments and changes prior to the bottom up budget building process
  - Specific initiatives in today's financial plan will be developed further
- Financial planning will align with capital planning:
  - Capital projects identified in today's financial plan will largely define the capital plan that will be presented to the Board this fall.
  - Both the financial plan and capital plan will clearly identify projects that will be funded with internal sources and be completed without external giving or availability of state funding constraints.

FY20 Operating Budget

University of Missouri Board of Curators

Finance Committee

June 20-21, 2019

MU and MU Health account for over 70% of the total budget

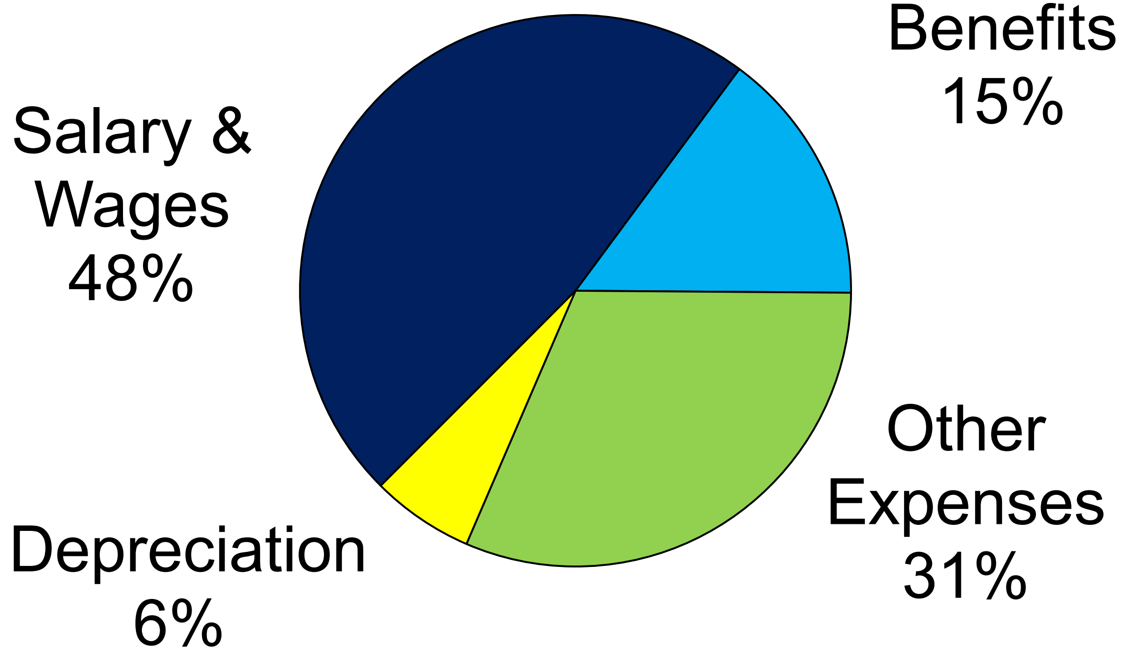
FY 20 Revenue Budget	MU	MU Hospitals	UMKC	S&T	UMSL	UM System	University Wide Units	Total
Net Tuition & Fees	$266.8	$0.0	$138.4	72.2	$83.9	($0.1)	($0.0)	$561.2
State Appropriations	217.8	0.0	73.9	50.2	55.9	12.3	9.5	419.6
Patient Revenues	249.6	1,063.2	38.6	0.0	0.0	0.0	0.0	1,351.4
Grants & Contracts	241.0	0.0	48.2	41.8	39.5	0.0	0.0	370.5
Gifts Revenue	82.7	1.8	16.3	14.0	16.5	0.1	0.0	131.4
Endowment & Investment Inc.	87.0	5.0	12.1	9.8	6.4	24.8	33.9	178.9
Auxiliary Revenues	275.1	24.9	42.4	21.9	19.5	24.0	0.0	407.9
Other Income	49.0	0.0	10.3	4.9	2.8	3.4	9.1	79.6
Total Revenue	$1,469.1	$1,094.9	$380.1	$214.9	$224.5	$64.5	$52.4	$3,500.5

Compensation Drives the Majority of Spending

FY20 All Funds Budget

$3.2 Billion

Expenses



The majority of budgets improve on operating margin over 2019

Unit	2019 Projection	2020 Budget	Target
Consolidated	3.3%	3.8%	4.3%
MU	1.3%	1.9%	3.2%
UMKC	(1.7)%	(0.6)%	0.0%
S&T	6.1%	0.8%	2.5%
UMSL	0%	4.4%	4.0%
MUHC	8.1%	8.2%	8.0%

University of Missouri System

COLUMBIA | KANSAS CITY | ROLLA | ST. LOUIS