GOALS FOR TODAY

Inform our community of emerging financial challenges

Seek input and offer possible strategies to address challenges including immediately minimizing further damage

Next steps:

- Define immediate action in June
- Working group will develop a long-range plan next fall
RECENT ACTIONS IMPACTING FINANCES

1. Legislative session ended – firmed up health insurance funding
2. State Board of Education set tuition and fees
3. Change in Employee Compensation (CEC) guidelines implemented
4. Health consultant recommended new health insurance rates
5. State Board of Education (SBOE) authorized ICCU Arena construction
6. Fall enrollment looks encouraging, but mix is of concern
7. State Board audit committee reported concerns to SBOE in Dec. 2018
PRIMARY FINANCIAL GOALS AND STRATEGIES

1. LIVE WITHIN OUR MEANS (REVENUE > EXPENSES)
   - Strategies:
     - Increase revenue
     - Decrease expenses

2. ADDRESS SBOE CONCERNS ABOUT NET POSITION
   - Strategies:
     - Continue discussion with SBOE about appropriate measures of financial health
     - Accumulate more cash on hand
GOAL 1: BALANCE REVENUE/EXPENSES

CASH CHALLENGES

- Consolidated Fringe Rate Adjustment ($6M)
- Health insurance State/self funding ($1.2M)
- Expansion of WUE program (TBD)
- Athletics deficit ($2M estimate)
- ICCU Arena financing ($1.6M estimate)
- College deficits (TBD)

NOTE: Will clarify estimates in the fall, but these are expected challenges
CASH CHALLENGES

TOTAL EXPENSES EXCEED TOTAL REVENUES
HOW TO LIVE WITHIN OUR MEANS

1. INCREASE REVENUE
   • Potential long-term strategies:
     • Grow enrollment
     • Increase tuition rates
     • Decrease effective discount rate
     • Increase health insurance payments

2. DECREASE EXPENSES
   • Potential short-term strategies:
     • Manage vacant positions, new hires
     • Decrease operating expenses
     • Other

“We will take immediate action to reduce the financial impact .... including reallocating current carry-forward or reserve balances, making additional base budget reductions and adjusting employee health insurance costs.”
GOAL 2: ADDRESS SBOE CONCERNS ABOUT NET POSITION

NET POSITION CHALLENGES – REAL AND PERCEIVED

- Our expenses exceeded our revenues by $21M in FY18
- Governmental Accounting Standards Board (GASB) Rule 75 (FY18 = $33M)
WHAT IS NET POSITION?

For a university, net worth is called *net position*

- Revenue increases net position
- Expenses decrease net position

We have a net position problem

- A recent change in accounting standards required us to record a $33 million expense related to health insurance and other commitments to certain retirees
- This change reduced our net position
NET POSITION CHALLENGE (PERCEPTION)

NET POSITION DEFINITION CHANGES RESULT IN SBOE CONCERN

Without GASB

GASB
MORE THAN A GEN ED PROBLEM

- Our net position challenge affects all funds of the institution (at the financial statement level)

- Historical strategy = cost-shifting rather than cost-cutting

- Spending from some other fund does not address the net position problem.
  - We must spend less overall.
PROCESS GOING FORWARD

- We need to solve this together
- Immediate goal is to curtail spending so we don’t make the problem worse
- Short-term actions will be announced in June
  - Focus on controls that minimize spending against current cash balances
  - Meetings with deans, vice presidents, ASUI, Faculty Senate, Staff Council
- Long-term solutions will be developed by working group in the fall
ONGOING VIGILANCE

1. Monitor spending to avoid a run on cash balances
2. Monitor the impact of WUE expansion
3. Meet SBOE expectations on net position
QUESTIONS?