

KU Lawrence Budget Town Hall:
Review (FY13-18) & Projection (FY19-23)

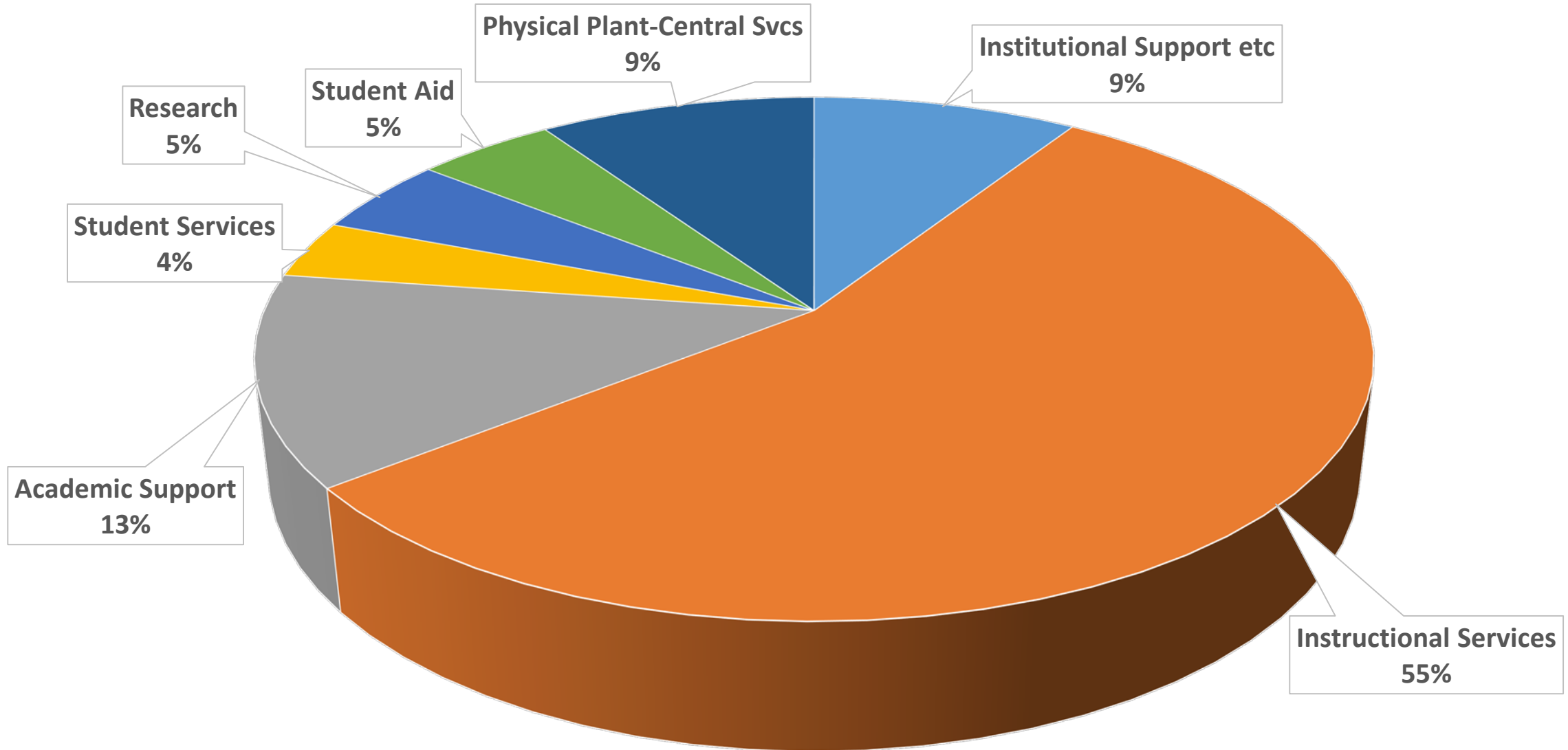
Carl W Lejuez
Interim Provost

6/6/18

What is Included in our Budget

- Base funding of \$350-\$450M
 - This number is based on revenue we expect to repeat
 - Today we will focus on revenue and expenditures linked to our State allocation and tuition
- Cash
 - Carry forward from “shrinkage” in previous years (this could be called reserves or savings); shrinkage = uncollected commitments
 - One time infusions from the state or other sources
 - Thus, “cash” is not an a priori category but instead the result of end of year funds that can be “carried over” to the next year – why it is often called carry forward and not cash or reserves

What Makes Up Our Current Base Funding



Provost Level Cash Commitments Over Past 6 Years

FY13: \$16.6M

- \$6.3M: Hiring / Retention
- \$4.4M: Research
- \$2.3M: Technology
- \$1.2M: Student support & recruitment
- \$1.0M: Campus Buildings

FY14: \$12.8M

- \$4.2M: Hiring / Retention
- \$3.8M: Research
- \$1.7M: Technology
- \$1.5M: Student support & recruitment

FY15: \$15.9M

- \$5.8M: Hiring / Retention
- \$4.0M: Research
- \$2.0M: Technology
- \$1.9M: Student support & recruitment
- \$1.4M: Campus Buildings

FY16: \$26.5M

- \$11.9M: Campus Buildings
- \$4.1M: Hiring / Retention
- \$5.3M: Research
- \$2.8M: Technology
- \$1.7M: Student support & recruitment

FY17: \$13.7M

- \$4.5M: Hiring / Retention
- \$3.5M: Research
- \$2.8M: Technology
- \$2.4M: Student support & recruitment

FY18: \$12.3M

- \$4.3M: Technology
- \$3.1M: Hiring / Retention
- \$1.9M: Student support & recruitment
- \$1.7M: Research

Provost Level Commitments for Next 5 Years

Amount Currently Committed

FY19: \$14.3M

FY20: \$12.9M

FY21: \$12.9M

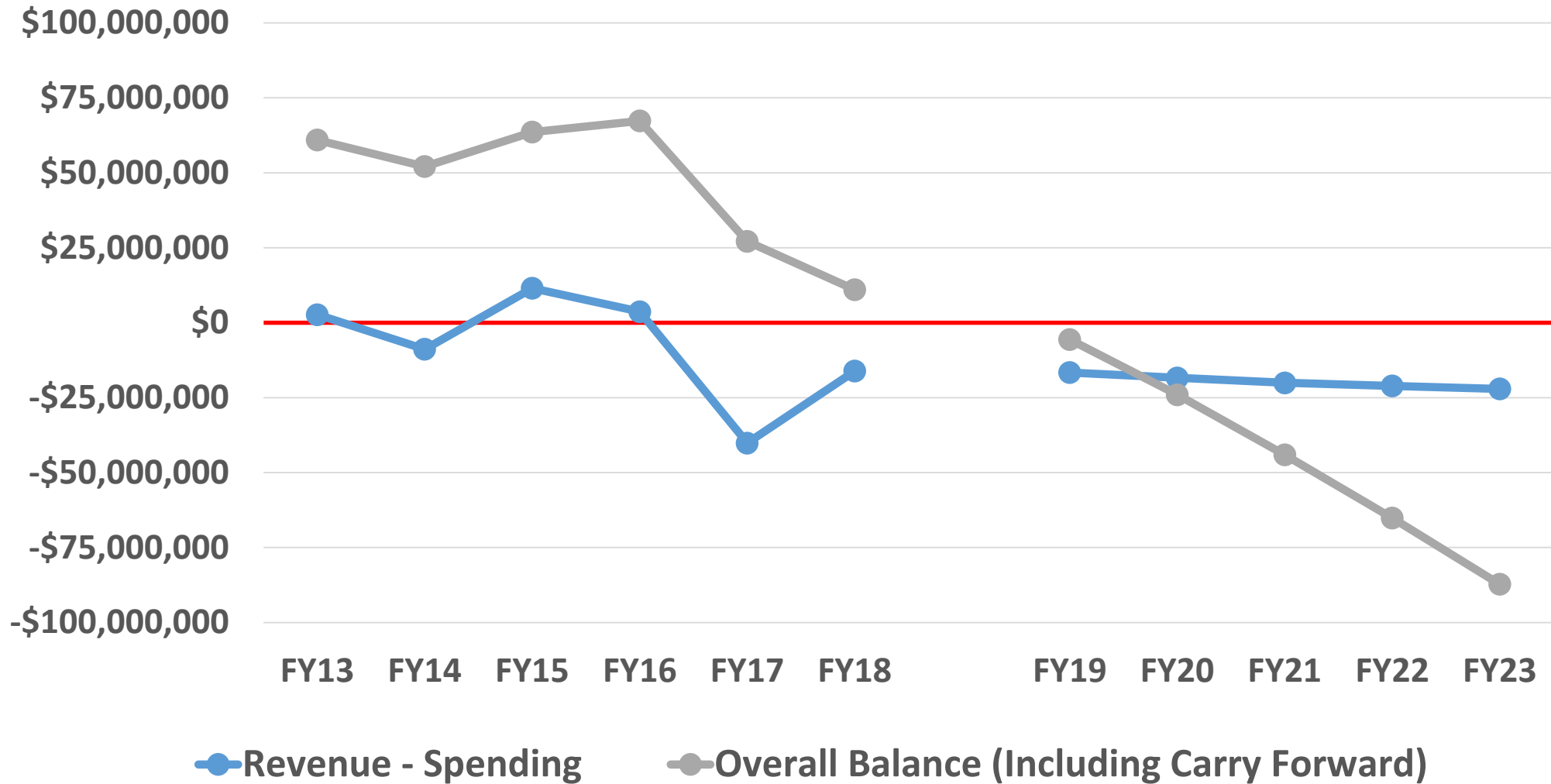
FY22: \$ 9.5M

FY23: \$ 9.4M

Examples of commitments over the next 3 years

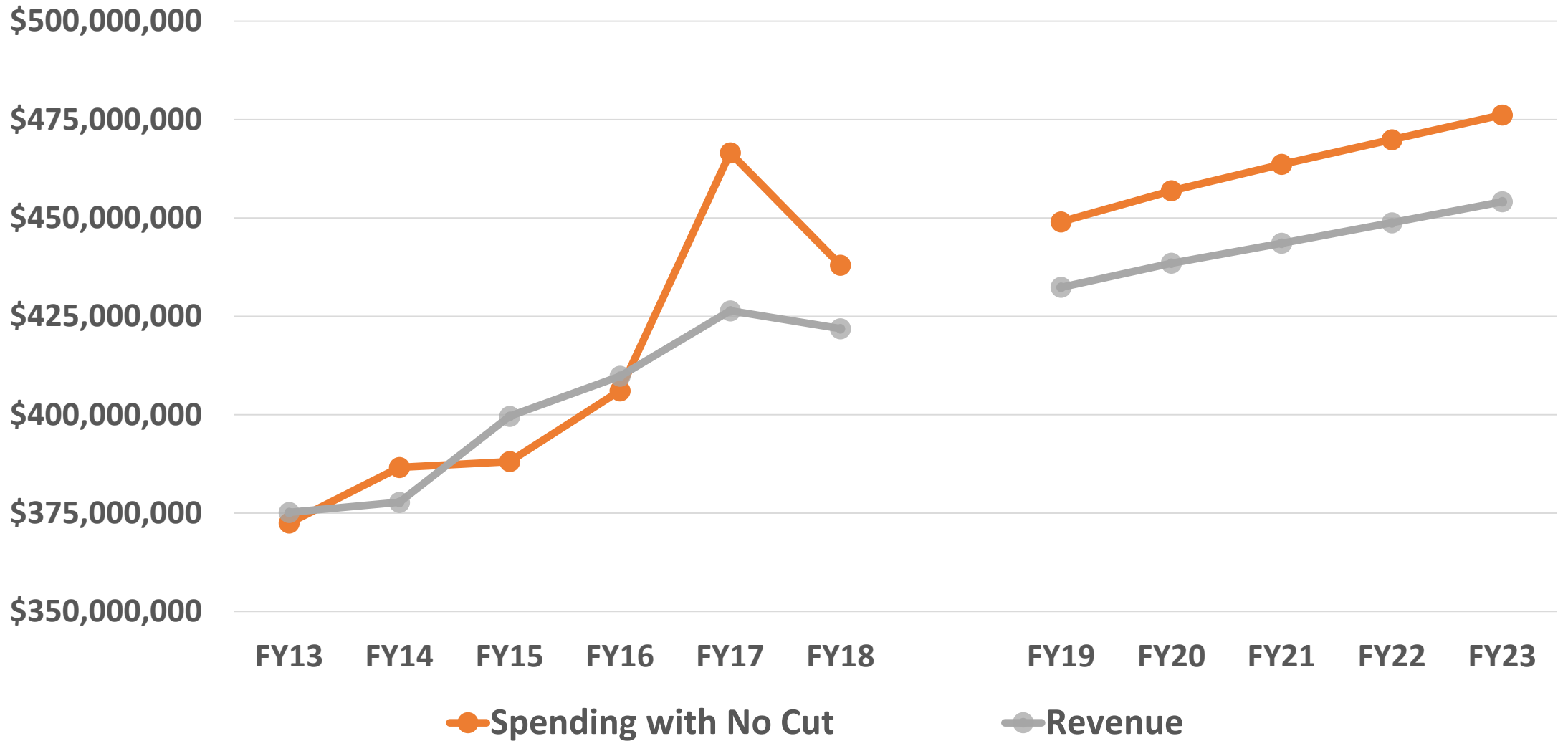
- Accreditation costs
- Disability accommodations for undergraduate students
- Diversity bridge funding
- Graduate school scholarships
- IT support
- Loan repayment for Social Welfare
- Multicultural Scholars Program
- Non-resident tuition waiver shortfall
- Programs/Tools for operations and analytics
- Non-resident tuition waiver shortfall
- Start up costs (Deans and Faculty)
- Student recruitment support
- Transition of Teaching Specialists to Asst Teaching Prof (College)

KU Budget Review & Projection (FY13-23)



* Red line indicates exhaustion of all central funds including carry forward

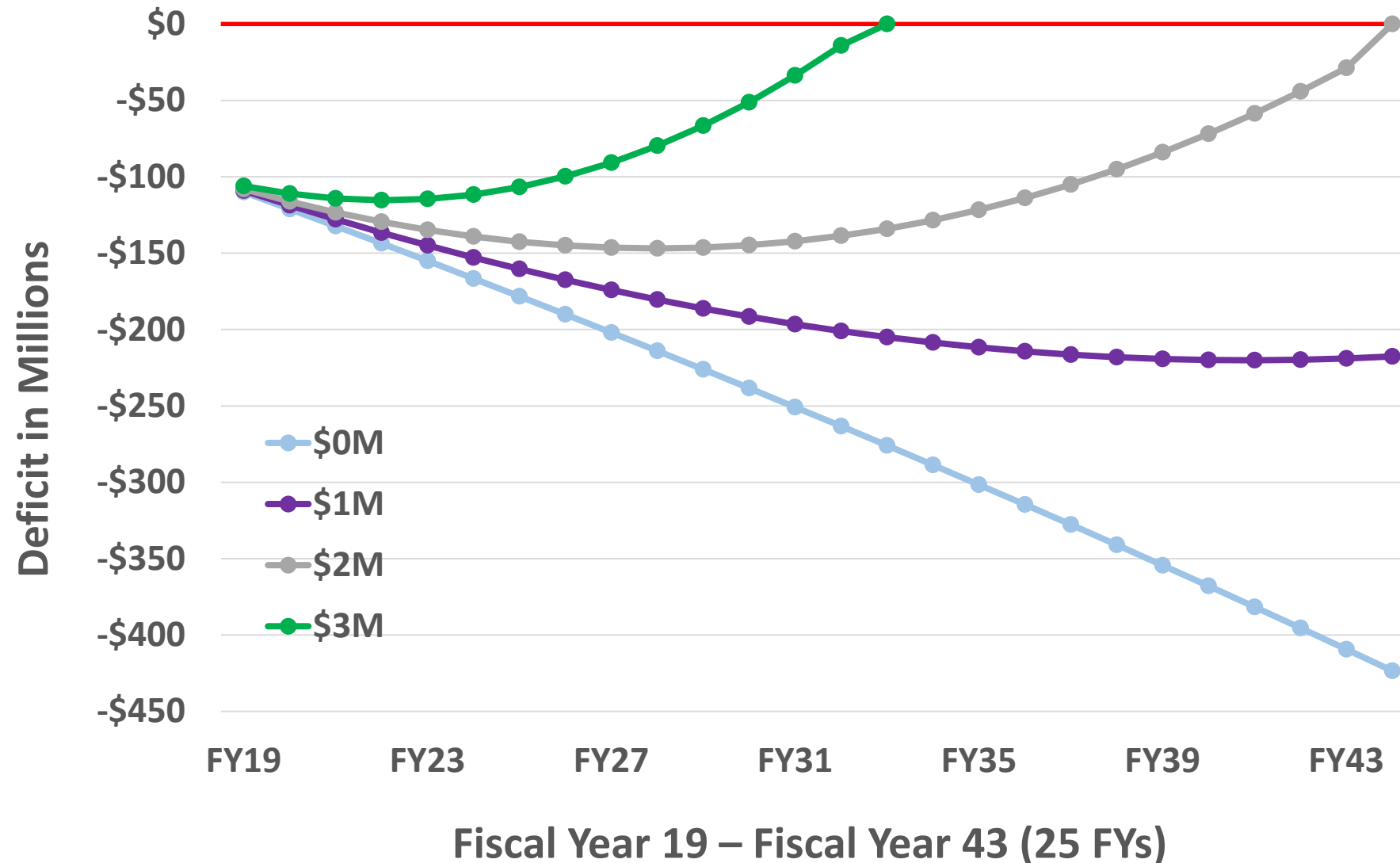
Revenue and Spending: Actual for FY13-18 and Projection for FY19-23



What is Missing/Underfunded in Current Base Budget and What Does that Mean if No Changes are Made?

- Missing from the base budget
 - Faculty/Staff raises
 - Graduate student stipend increase and research/travel costs
- Underfunded in the base budget
 - Provost commitments
 - Deferred building maintenance
- Without changes, for each crucial category we must choose:
 - Spend less, risking significant damage to morale, reputation, and service
 - Spend ad-hoc each year and add to overall deficit

Annual Base Budget to Deferred Maintenance to Zero Out Deficit Based off \$100M Current Deficit (1% Annual Inflation)



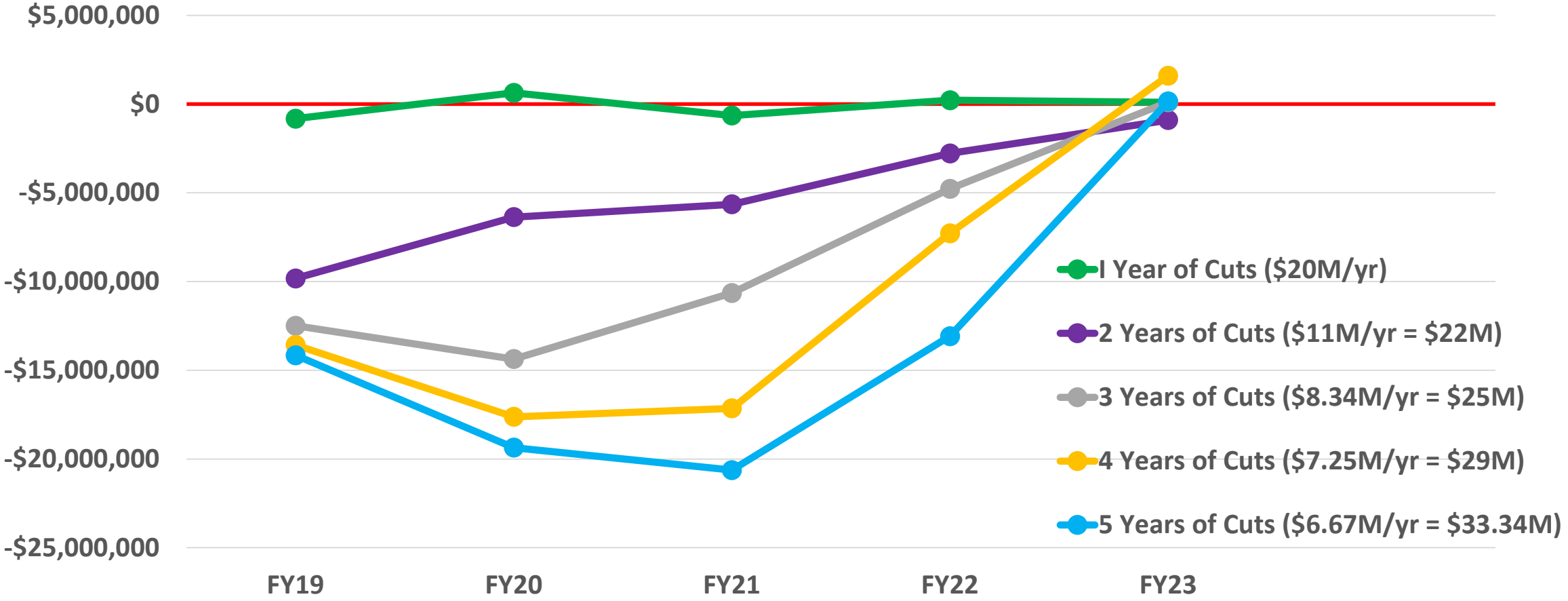
Without Cuts, What Does Our Projected Budget FY19-23 Look Like?

- See Excel Spreadsheet

How Might We Respond to Current Fiscal Situation

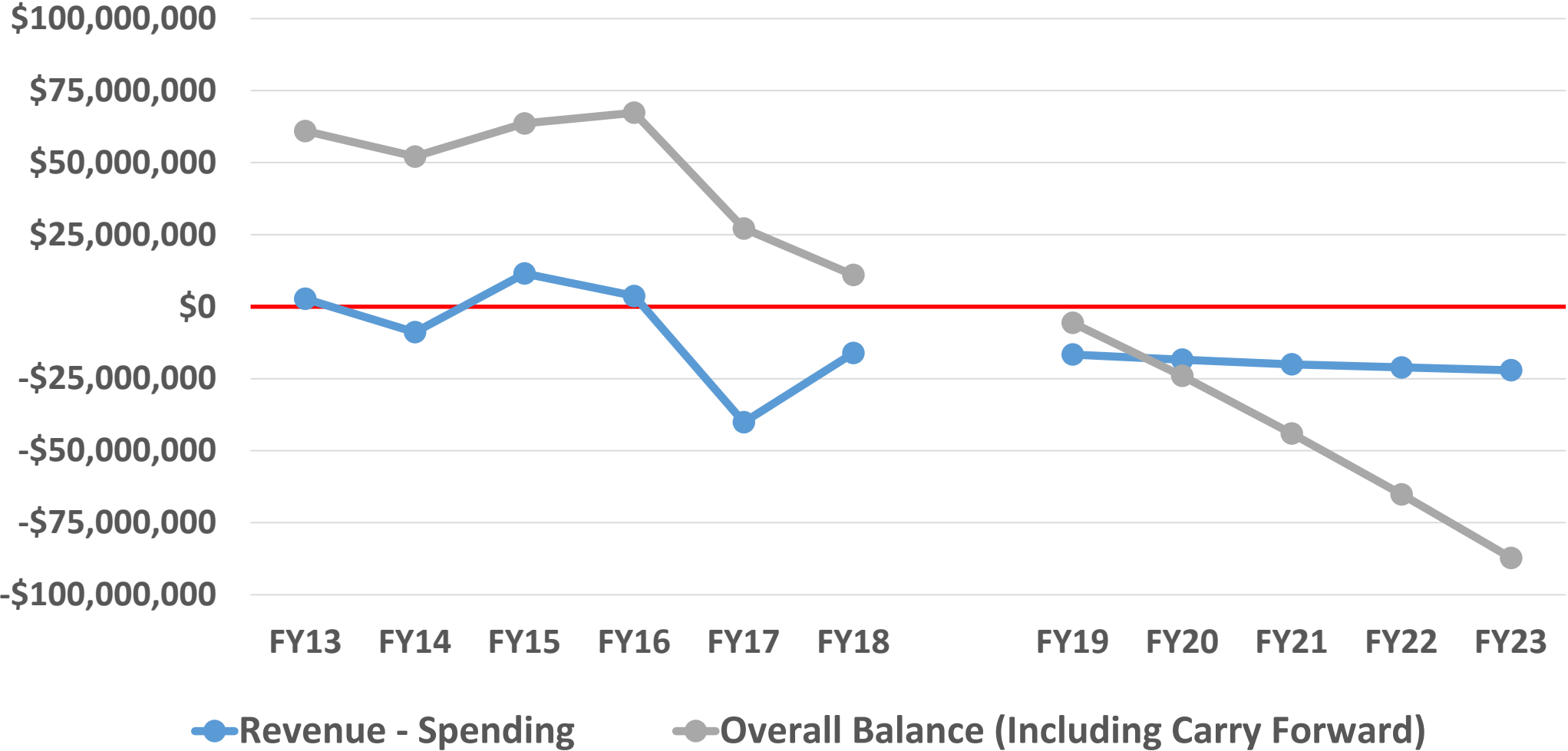
- No cuts will force fiscal decisions in the very near future that may be short sighted and difficult to recover from
- Small cuts increase overall cost and limits flexibility to invest
- A larger one-time cut is painful but may have fewest long-term adverse impacts

Time/Cost of One-time \$20M Cut vs Multiple-year Cuts to Bring Spending Below Revenue & Eliminate Deficit



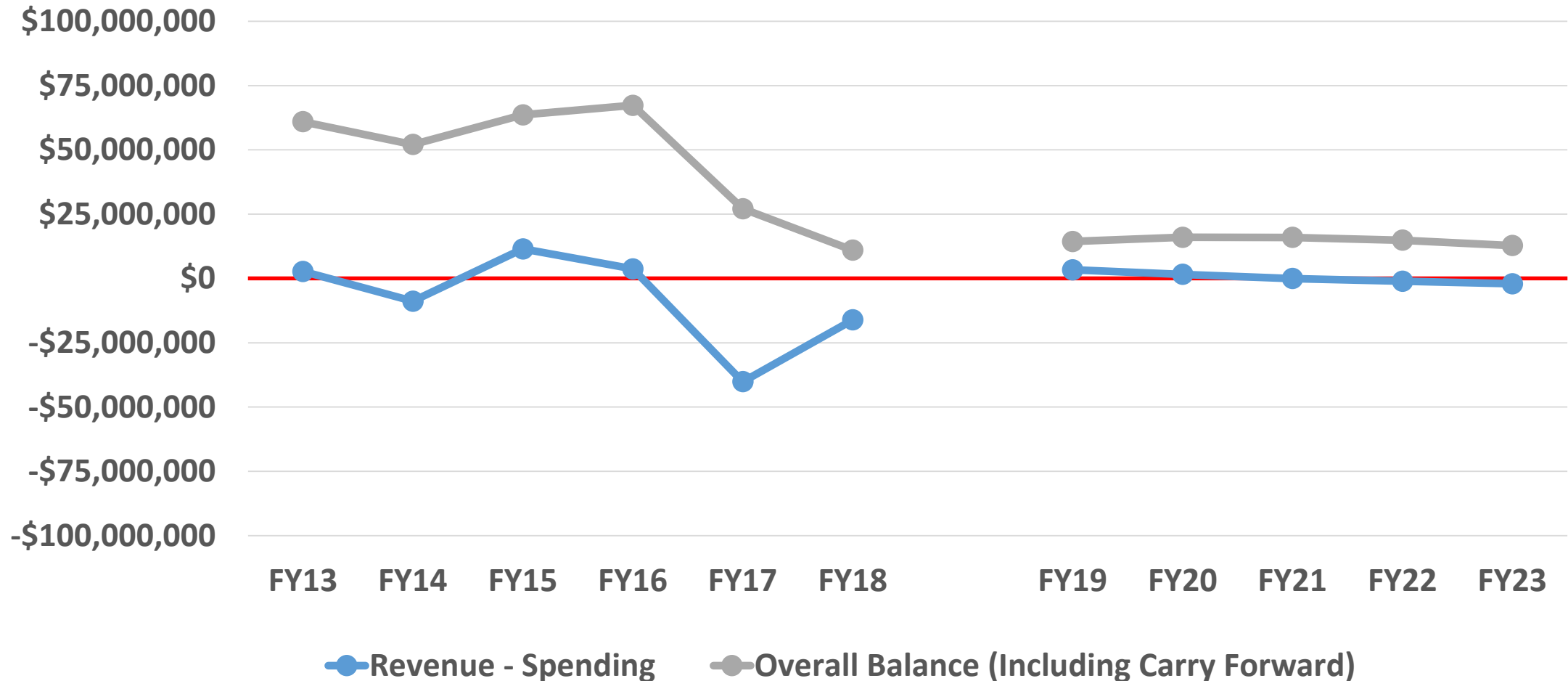
*All lines above aim to preserve carry forward of \$11M and assume up to \$1M in additional spending each year

KU Budget Review & Projection (FY13-23)



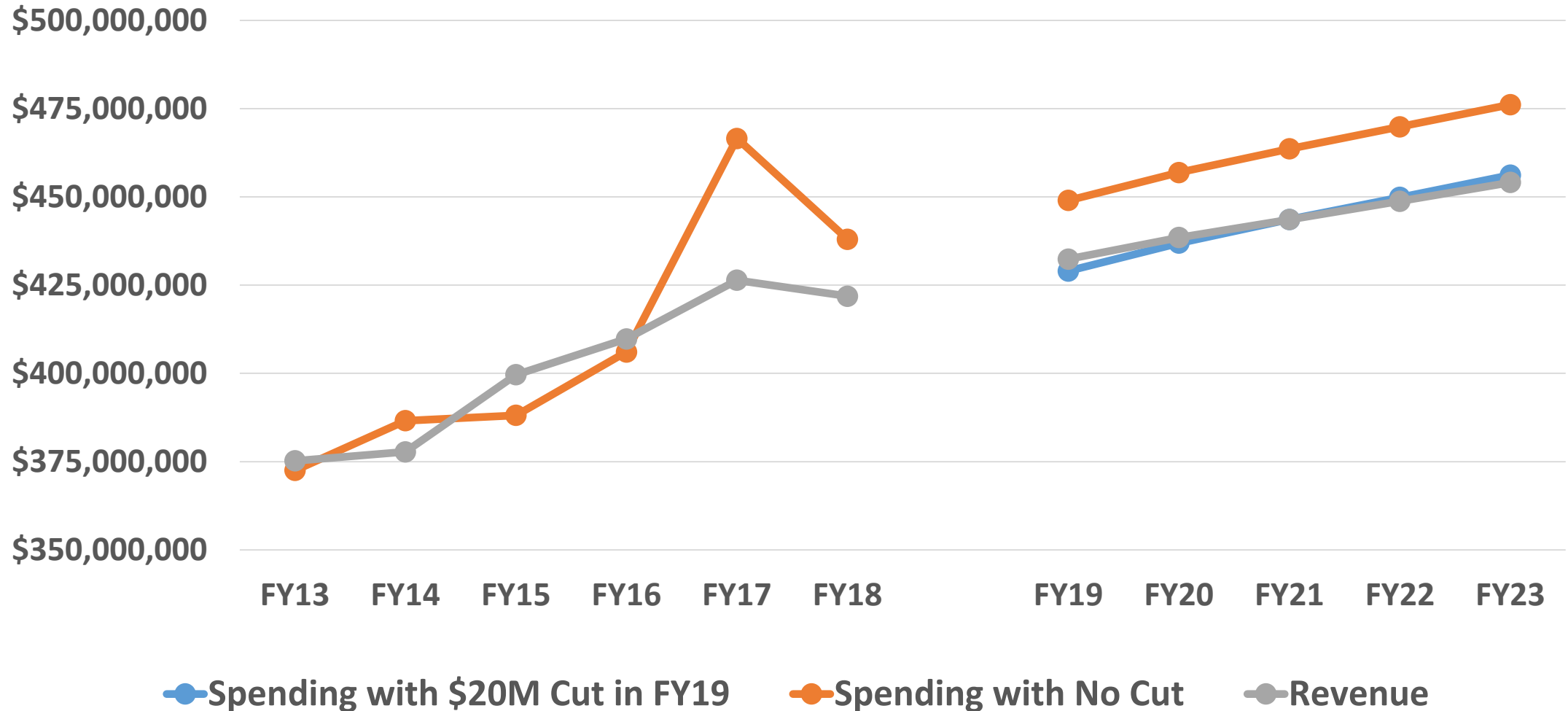
* Red line indicates exhaustion of all central funds including carry forward

10 Year KU Budget Review & Projection (FY13-23) without and with a \$20M cut in FY19



* Red line indicates exhaustion of all central funds including carry forward

Revenue and Spending: Actual for FY13-18 and Projection for FY19-23 (With/Without \$20M Cut in FY19)



What Does Our Projected Budget FY19-23 Look Like with Necessary Cuts?

- See Excel Spreadsheet

Passing of Cuts: Details & Timeline

Details

- Cash Cut Now: Multiple Options
 - 1) Cut from the whole pie
 - 2) Cut across board
 - 3) Cut with metrics (which metrics matter? how are the metrics calculated?)
- Base Cut Next Year: Determined as part of new budget model process

Timeline

- 6/18/18: Finalized amounts for cash cuts to each unit
- 7/1/18: Hiring decisions by each unit determined and announced
- 8/1/18: Deans and VPs determine how cash cuts will be made
- 8/18-12/18: Provost works with Deans and VPs to develop new budget model
- 2/1/19: Provost announces base cuts for FY20 based on new budget model

Take Home Point 1: Current Status

- **Without spending changes**

- We will be in deficit centrally in 1 year (including centrally held carry forward balances)
- We will have created well over \$50M in deficit centrally in 5 years
- We will lose financial flexibility and leverage to pursue a range of mission critical and revenue generating strategies
- We may be forced to increase tuition more than we believe is prudent/fair which may then have a counterproductive impact on recruitment (further deepening deficit)

Take Home Point 2: How Did We Get Here?

- We have operated without a long-term budget forecast guiding decisions
- Costs/spending up in past 5 years (and projected to increase further)
- Revenue increased but at a much slower rate, largely from tuition increases
- All recent spending could be justified in isolation (new buildings, discretionary commitments), but we must determine spending in a fully-informed context of a balanced, fiscally responsible budget
- Our budget model is flawed, contributing to rising costs and hampering revenue generation

Take Home Point 3: What's Next?

- **What we shouldn't do**

- Do nothing and hope things magically improve and/or borrow what is needed to stay afloat
- Space cuts out which costs more over time, extends time in cutting mode, and leaves us vulnerable to not being able to cover unexpected but necessary costs or invest in revenue generating strategies
- Use furloughs to catch up

- **What we should do to move forward**

- Immediately, we must make one significant base budget cut (\$20M)
- Immediately, we must curb new spending below revenue which will be challenging over the next few years given that considerable spending already has been committed across these years
- Over this year, we must develop a new budget model that balances growth within larger priorities
- As a longer term and sustained strategy, we must utilize a balanced and fiscally responsible budget where spending is justified in the context of a 5 year projected budget including likely revenue and other spending priorities (will be aided by current strategic planning)

Take Home Point 4:

What Will the Future Look Like at KU with this Cut?

- Immediate/Sufficient will be hard but allow us move to move quickly out of vulnerability and put our people first including (but not limited to):
 - providing raises (even if small) every year
 - keeping tuition increases to a minimum
 - basing in other needed spending
- One year impacts on hiring and several years of curtailed discretionary spending as we align spending with revenue in our new budget model
- Fiscal responsibility at all times and the opportunity to get back to strategic spending as our long-term budget outlook improves

Take Home Points 5:

How Do You Know this Will Not Happen Again?

- Budget out 5+ years
- Show it all – Present budget monthly/quarterly this year and annually in future years (also make printer version accessible)
- Make decisions about future spending with budget team and Dean's/VPs in the context of 5 year budget model
- Build spending into base budget as closely as possible
 - If not in base then is it a priority? If a priority then plan for future basing
 - If spending in a category exceeds based \$ then ↑base/↓spending

Key Questions (and Answers) about Responsibility

When is a leader responsible for what happens in their organization?

- **Always**, The leader:
 - Sets the agenda for their staff to provide them with marching orders about the path forward and what is needed from them and when.
 - Empowers staff to provide information based on the agenda set and execute necessary activities as directed by the leader

When is a staff person (at any level) responsible for decisions made?

- **Never**, *if* their work - IN THE SCOPE OF THEIR JOB DESCRIPTION - is free of:
 - Bias
 - Error (1x if intentional; opportunity for remediation if unintentional)
 - Lack of execution (1x if intentional; opportunity for remediation if unintentional)

Does the need for accountability mean something wrong was done previously?

- **No**, but it does mean going forward we will monitor progress, report out, and make changes when the path forward is out of line with our mission and values