BUDGET BOOK

2024

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Fiscal Year 2024 Operating Budget
UM

At the June 29, 2023, Board of Curators Meeting, Executive Vice President for Finance and Operations Ryan Rapp will present the FY2024 budget. The FY2024 budget reflects the culmination of planning efforts undertaken by each institution throughout the spring. For FY2024, each University and MU Healthcare has submitted a budget in line with the financial plans approved by the Board at the February meeting.

The FY2024 all funds revenue budget is $4.2 billion. The following table shows the FY2024 revenue budget by revenue source ($'s presented in millions).

Next Steps

universities in the last fiscal year of the current financial plan. Planned enrollment growth differs by university, and most enrollment growth underwrites planned growth expenditures that can be avoided if enrollment growth is not realized. UMSL is dependent on enrollment growth to support its current expenditure base.

4. **The federal stimulus packages and current state budget surpluses have allowed for the appropriation of significant capital funding from both the state and federal government. These extramural capital sources have enabled significant capital investments over the coming three years. Over the longer planning horizon, the key source for future capital investment will be each unit's ability to generate a positive operating margin.**

5.

The financial planning process set units' performance targets for the upcoming five-year period. For FY2024, each University and MU Healthcare was expected to submit a budget with operating performance in line with performance submitted as a part of the financial planning process.

Table 1: Operating Margin by Unit

	UM	MU	UMKC	Missouri S&T	UMSL	MU Healthcare
Target	>2.5%					

measures.

The financial performance metric approved during the annual budget process is presented on each Unit's Statement of Revenues, Expenditures, and Changes in Net Position is the "operating margin" on line 23. The operating margin reflects management's ability to balance operating expenses within revenues each year. A positive operating margin indicates available revenues exceed annual operating expenses.

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 12% of the current funds budget.

Endowment and plant funds primarily affect the University's balance sheet and non-operating revenue sources. The primary funding streams for endowment funds are gift revenue and investment returns. These gifts are typically permanently restricted. The endowment fund's spending distribution provides endowment income to the current funds. These funds are primarily restricted in use by the donor and provide funding for scholarships, professorships, and other university support. The primary funding streams for plant funds are reserves from the University current funds, capital gifts or grants and capital appropriations. The capital planning process and project approvals govern the use of plant funds. The University's interest and depreciation expense is recorded in the plant fund. Interest expense is funded by the obligated operations or auxiliaries within the current fund.

The Board approved budget serves as the guide for the year, as the assumptions underlying the budget may change throughout the year causing management to adjust to maintain the financial health of the institution.

In November 2020, the Board approved the following resource allocation principles in accordance with the development of the Council of Chancellors. The change in resource allocation principles provide the Chancellors more autonomy to make their universities successful while at the same time establishing additional accountability for the Chancellors in achieving sustainable financial results.

1. **Each university will retain all resources, such as tuition and fees, gifts, sales and services, that it generates through its own activities.**

2. **Each university will retain resources that it generates through cost reductions.**

3. **Resource allocation for state funding will consider the different missions and unique nature of each university with funding based on enrollments, programs and levels of students (undergraduates versus graduates and professionals). The Council of Chancellors will propose the allocation of state funding to the Board for approval. The Board has full discretion of the allocation of State Appropriations.**

4.

Revenue growth is expected to be about 2% across the sector and lag inflation. Institutions heavily reliant on student charges with weak student demand will face the greatest challenges.

Rising expenses will lead to operating deficits for a growing share of the sector, forcing more institutions to tap reserves. Restoration of spending cuts during the pandemic will lead to material expense growth in the industry.

Prior cash and investment growth will provide some cushion, but downward pressure on investment returns and reserve balances remains.

To move the outlook back to stable, Moody's would need to see revenue growth matching inflation, improved investment returns, and sound student demand with steady enrollment.

Moody's 2023 outlook for not-for-profit healthcare sector remains negative for 2023 as ¶ e¶h ! n l' ד in] ג ↑ m ¶ n l' ד ¶

While enrollments in Missouri face demographic headwinds, the University of Missouri System remains well positioned in the higher education marketplace with some of the best performing institutions in the state. The University System also benefits from its diversity of operations, with additional revenue streams for research, public service, and clinical operations. Tuition and state support serve as the cornerstone to sustain quality research universities, and the FY2c

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP – Unaudited

The University's budget includes a revenue increase of 10.4% over FY2022 and 5.9% over FY2023:

Net Tuition and Fees (Line 3) are projected to grow by 5.7% or $31.3 million year over year. Budgeted amounts include the tuition rate increases approved by the Board in May 2023. Overall enrollment is budgeted to increase by 1%. Tuition and fee growth is mitigated by a changing mix of students, with resident student enrollment increasing and non-resident student enrollment flat to declining. The long-term success of the academic enterprise is dependent on successful growth of these revenue streams. Additional discussion is provided in the appendix for each institution.

Grants and Contracts (Line 7) are projected to grow by 7.1% or $30.8 million year over year. MU continues to grow research grants and contracts with the Mizzou Forward initiative and investments in new faculty to grow research revenues. For FY2023, MU is projected to grow research revenues by 8.2%. UMKC is budgeting 4.5% growth in research grants and contracts.

Auxiliary Enterprises (Line 8) are projected to grow by 4.4% or $19.8 million over the prior year. Auxiliary enterprises are a diverse group of service units that offer goods and services to the University community that help maintain a fully functional research university, but don't contribute directly to the institution's core mission. It is expected those units operate sustainably, examples of auxiliary operations include student housing, student dining, athletics and bookstores. The growth in revenues reflect inflationary rate increases and stable enrollment.

Patient Medical Services (Line 9) are projected to grow by 6.1% or $104.5 million over the prior year. The overall budget includes 3% volume growth year over year reflecting internal growth plans and an assessment of market opportunities. MU Healthcare continues to keep an eye towards the mid-Missouri market and is currently evaluating new growth opportunities to maintain its status in the current market while growing into new markets to reflect its position as an academic medical center.

Other Operating Revenues (Line 10) are projected to decline by $3.2 million over the prior year. Other operating revenues include camps held and merchandise sold (i.e. t-shirts) by schools or colleges, pass through aid from third parties such as KC Scholars, and application and deposit fees. These revenues typically will not generate resources for academic units but will cover the cost associated for the goods or services provided.

State Appropriations (Line 11) are budgeted at the amount Truly Agreed and Finally Passed (TAFP) by the legislature for the 2023 legislative session. Appropriations for capital projecto

Lever, Hatch, etc.) which require an annual match from the State. Federal appropriations reported under the University-wide unit represent Build America Bond Tax Credits which provide a subsidy for qualified bond interest payments.

Private Gifts (Line 13) are budgeted to remain flat. These funds from donors provide support for scholarships, faculty salaries, and academic programs. Budgeted expenditures supported by private gifts are dependent on the availability of the related revenues.

Spendable Investment Income (Line 14) reflects the earnings from investments that can be utilized towards current operating purposes. This amount includes the spending distribution from endowments, interest on cash balances from the general pool, and the strategic dividend from the general pool.

Details on the remaining revenues can be found for each university in the appendix.

The University's operating expenses are projected to increase over FY2022 by 13.4% and grow over the projection for FY2023 by 5.6%:

Salaries and Wages (Line 16) are projected to grow by $121.4 million or 6.6%. The increased budget for salaries and wages largely reflects the impact of a 4% market and merit pool across the different business units. Additional investments budgeted include faculty and staff to support research revenue growth and market adjustments to fill vacant positions.

Benefits (Line 17) are projected to grow with the growth in Salaries and Wages. The faster growth in benefits is driven primarily by medical costs. The University's medical claims cost has increased as healthcare utilization has returned to more historical levels. The benefits budget includes this increase in cost to reflect the increase in medical costs.

Supplies, Services and Other Operating Expenses (Line 18) are projected to grow by $36.8 million or 3.1%. The increase is largely driven by inflationary pressures on the acquisition of goods an m goo, Ser l ao ! - θ aaS h þ c Î cl cd itireo: es, - ϵ e } lo ! tgoo$ P
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focus on aligning resources to the strategic plans and resetting performance targets to reflect the balance between the use of financial resources and strategic priorities. Targets recommended to the Board in February will consider industry trends or significant shifts in strategy necessitating a change in target for either the consolidated enterprise or amongst the units.

The details that follow show the breakout of the consolidated budget by operating unit. The key drivers of consolidated performance remain MU and MU Healthcare, which in total encompass three quarters of the University's operating expenditures.

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP - Unaudited

Operations and Service Operations	**$78,338**	**$98,039**	**$96,565**
Auxiliary Enterprises	**137,435**	**141,867**	**149,390**
Patient Services Auxiliaries	**(36,162)**	**(38,404)**	**(20,998)**
Restricted (Gifts & Grants)	**84,418**	**89,044**	**101,727**
Plant	**31,864**	**30,350**	**21,745**

Supplies, Services and Other Operating Expenses

Operations and Service Operations expenditures are budgeted to decrease by $1.5 million over FY2023 projection. MU's budget is built on maintaining faculty and staff to support enrollment. The labor market continues to place pressure on wage rate and turnover within the organization. Cost reductions were budgeted to fund the additional compensation need to retain and recruit faculty and staff.

Auxiliary Enterprises expenditures are budgeted to increase by $7.5 million over FY2023 projection. This budgeted amount reflects the projected inflationary cost increases in supplies and other for auxiliary operations.

Patient Services expenditures are presented as a negative expense as a charge to the Hospital for clinical services provided by University Physicians, including anesthesia coverage, call coverage, and other purchased services common in healthcare operations. The smaller negative represents a smaller charge to the hospital for physician services, which are budgeted to decrease as MU Healthcare manages expense growth within available revenue budget streams.

Restricted expenditures funded from grants and gifts are anticipated to increase $12.7 million from FY2023 projection. This increase correlates with the budgeted revenue growth in grants and contracts. These expenditures relate to the specific supplies and services needed by individual gift or grant agreements.

Plant expenditures are projected to decrease by $8.6 million over the prior year. The decrease reflects less maintenau aM ȳ n á gr n& T Ặ n

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Swine Facility Expansion and School of Medicine Building Renovations is anticipated to have $21 million in spending for FY2024. The project sources include capital reserves and governmental appropriations.

Thompson Center will be support by capital reserves, gifts and by America Rescue Plan Act funds from the State. The FY2024 budget includes investments totaling $5.5 million for this project.

Renovations on the Virginia Ave Parking Structure funded by capital reserves are budgeted to be $6.8 million for FY2024.

Renovations on Pershing Hall and Lottes Health Science Library will be funded by capital reserves are budgeted to be $14.4 million for FY2024.

Engineering and Applied Sciences Building will be supported by governmental

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Investments in increasing and improving research infrastructure including staffing continue in FY2024.

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP – Unaudited

Line

Overall, UMKC's operating margin is $8.6 million, or 1.8%. UMKC's margin is above the target of 1%.

<u>Tuition and Fees</u>______ are budgeted to increase by $10.8 million or 4.8% over the prior year. The gross tuition and fee budgeted amounts include the Board approved rates from May 2023. Budgeted enrollment includes an overall increase of 2% with modest increases in undergraduate enrollment and declining international graduate enrollment. UMKC's primary revenue driver remains graduate and professional programs, with the professional programs driving nearly 60% of the tuition program. Professional program enrollments remain stable with solid demand.

Scholarship Allowances are budgeted to decrease by $1 million or 1.2% from the rei

Private Gifts

Operations and Service Operations	**$54,450**	**$64,379**	**$62,912**

S&T's budget is built upon the re-emergence of growth after declining enrollments prior to the pandemic. After receiving the largest gift at a Missouri public institution in FY2021, S&T seeks to become one of the top public STEM focused research institutions in the country. The following investments are included in the budget to support this vision:

Student Success and Quality – scholarships and fellowships will be provided for highly qualified students through the continuation of the Kummer Vanguard Scholars program for undergraduates and the Kummer Innovation and Entrepreneurship Fellows program for doctoral students. Additional investments will be made -a ? Addit ! ę l m

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP – Unaudited

Line No.					
1	Tuition and Fees	$ 119,995	$ 126,023	$ 131,330	4%
2	Less Scholarship Allowances	63,974	70,700	72,821	3%
3	Net Tuition and Fees	56,021	55,323	58,509	6%
4	Federal Pell Grants	5,445	5,625	5,400	-4%
5	Government Scholarship Funding	5,670	5,925	5,000	-16%
6	Institutional CARES Act Funding	7,168	-	-	0%
7	Grants and Contracts	44,203	40,682	43,775	8%
8	Auxiliary Enterprises	23,098	23,800	24,264	2%
9	Patient Medical Services, Net	-	-	-	0%
10	Other Operating Revenues	3,405	3,500	2,860	-18%
11	State Appropriations	53,026	55,942	60,121	7%
12	Federal Appropriations	-	-	-	0%
13	Private Gifts	8,208	18,700	20,269	8%
14	Spendable Investment Income	18,477	13,200	14,348	9%
16	Salaries and Wages	95,976	105,300	112,935	7%
17	Benefits	29,336	31,800	37,099	17%
18	Supplies, Services and Other Operating Expenses	45,052	50,200	48,670	-3%
19	Depreciation	23,901	24,500	24,918	2%
20	Interest Expense	5,304	5,100	4,847	-5%
24	Investment Income (Losses), Net of Fees	7,601	11,316	13,053	15%
25	Spendable Investment Income	(18,477)	(13,200)	(14,348)	9%
26	Other Nonoperating Revenues (Expenses)	(6,796)	41	50	22%
27	State Capital Appropriations	-	7,300	20,762	100%
28	Capital Gifts and Grants	5,339	27,085	34,694	28%
29	Private Gifts for Endowment Purposes	3,314	3,500	2,250	-36%
30	Mandatory Transfers	18	-	-	0%
31	Non-Mandatory Transfers	(2,189)	1,854	82	-96%
35	Cumulative Effect of Change in Accounting Principle	(36)	-	-	

Overall, S&T's operating margin is $6.1 million, or 2.6% which is in line with financial plan presented to the Board in February.

Tuition and Fees are budgeted to increase by $5.3c Į* iali Į ʿ pƯ3 Į ɱ0h wMuyonpterg l'

revenue.

Plant expenditures are budgeted to increase by $96,000 over FY2023 projections due to an increase in planned non-capital M&R plant projects.

Capital spend over $5 million included in S&T's budget are as follows:

Missouri Protoplex Building is a hub for connecting industry, state and federal agencies, and colleges and universities throughout Missouri to develop new manufacturing processes and new products. Funding for this project will be supported by gifts, state appropriations, s "   אʿ

UMSL's FY2024 budget is built upon recapturing lost enrollments to regain revenues to match the institution's current cost base. Stabilizing enrollment is UMSL's highest priority. The FY2024 budget includes funding to improve enrollment including enhanced recruiting and advising, marketing, a branding revision, investment in eLearning, and revised financial aid initiatives. To respond to the new expense base from falling enrollments, UMSL has expanded shared services and is implementing a space consolidation plan to reduce its capital footprint.

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP – Unaudited

Overall, UMSL's operating margin of $513,000 or 0.2%. The FY2024 budget represents the recapturing lost enrollments to match the institution's expenditure base.

<u>Tuition and Fees</u> **are budgeted to increase by $11.2 million or 10.3% over the prior year. This increase is a result of a 6% approved tuition rate increase and 2% increase in**

Salaries and Wages include the effect of a 4% performance-based merit and [redacted]
raise pool.

Operations and Service Operations	**$78,199**	**$81,900**	**$84,457**	[redacted]
Auxiliary Enterprises	**2,212**	**1,978**	**1,981**	[redacted]
Restricted (Gifts & Grants)	**17,386**	**18,833**	**19,775**	[redacted]

project will be supported by capital reserves, gifts, and state capital appropriations. The FY2024 budget includes investments totaling $23.4 million for this project.

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP - Unaudited

In FY2022, MU Healthcare experienced a decline in operating margin from cost increases

The UM System Business Unit includes the administrative and support functions including service centers that provide unduplicated support to the four universities and health system. As described in the Report to the Board on Administrative Efficiencies from the November 2020 Board Meeting:

> **"Instead of funding administration with state appropriations and investment income, these services will be funded via a cost allocation to the Universities based upon their share of total operating expenses or other cost drivers. The cost allocation for services will also force administrative units to justify the scale and cost of their function to the Universities they support."**

The following Statement of Revenues, Expenses, and Changes in Net Position reflect the funding structure change, with the universities and hospital now paying the cost of system administration. The funding structure moved state appropriations and investment income out to the Universities, then charged a related amount to have each University pay system administration for the services provided. UM System Administration's budget growth lags the university's growth to ensure that administration continues to be a smaller part of the organization.

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP - Unaudited

The primary remaining revenue at UM System is MOREnet which supplies high speed

Simplified View Statement of Revenues, Expenses, and Changes in Net Position - non-GAAP - Unaudited