University of Kansas

Financial Update & FY2026 Budget Plan

June 2025

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Agenda

I. Core Financial Objectives

II. Challenges facing KU & Higher Education

III. KU Lawrence/Edwards Financial Background, Forecast, & Solutions

IV. KUMC Financial Background, Forecast, & Solutions

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I. Core Financial Objectives

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I. University of Kansas Core Financial Objectives

- Continue implementation of all employee market pay by FY2029
- Supports implementation of strategic plans
- Be stewards of and leverage all University resources to support the mission
- Be affordable and competitive
- Budget and forecast achievable results
- Maintain cash or liquidity levels for stability and resiliency
- Maintain positive operating margins (revenues above expenses)
- Adequately fund capital needs for quality facilities
- Manage efficient operations
- Continuously improve

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II. Challenges Facing KU & Higher Education

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II. Challenges Facing KU & Higher Education

- Research Universities are hit particularly hard by federal government funding reductions
- State funding flat to decreasing
- Evidence of challenges of recruiting students (enrollment cliff & higher education perception)
- Critical need for market pay to retain and recruit quality faculty and staff
- Continued challenges of maintaining infrastructure
- Construction cost pressures and operating costs of new facilities
- Fiscal pressure in college athletics reducing the ability to maintain current support to the University
- Increasing costs of goods and services (inflation 17.5% in last 5 years, HEPI)

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II. Credit Rating Agency Comments Requiring Actions to Challenges

From May 6, 2025 Moody's Ratings Report Aa2 Stable Rating

"***Credit Challenges***:

- *Thinly balanced financial operations historically lower unrestricted liquidity compared to peers*
- *An evolving federal political landscape adds operational and potentially financial complexities*
- *Very large and complex enterprise with multiple campuses and affiliated organizations*

Factors that could lead to a downgrade

- *Deterioration in operating performance or debt affordability*
- *Material decline in monthly days cash on hand (152 days compared to peers 189 days)*
- *Marked reduction in state financial support"*

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III. KU Lawrence/Edwards Financial Background, Forecast, & Solutions

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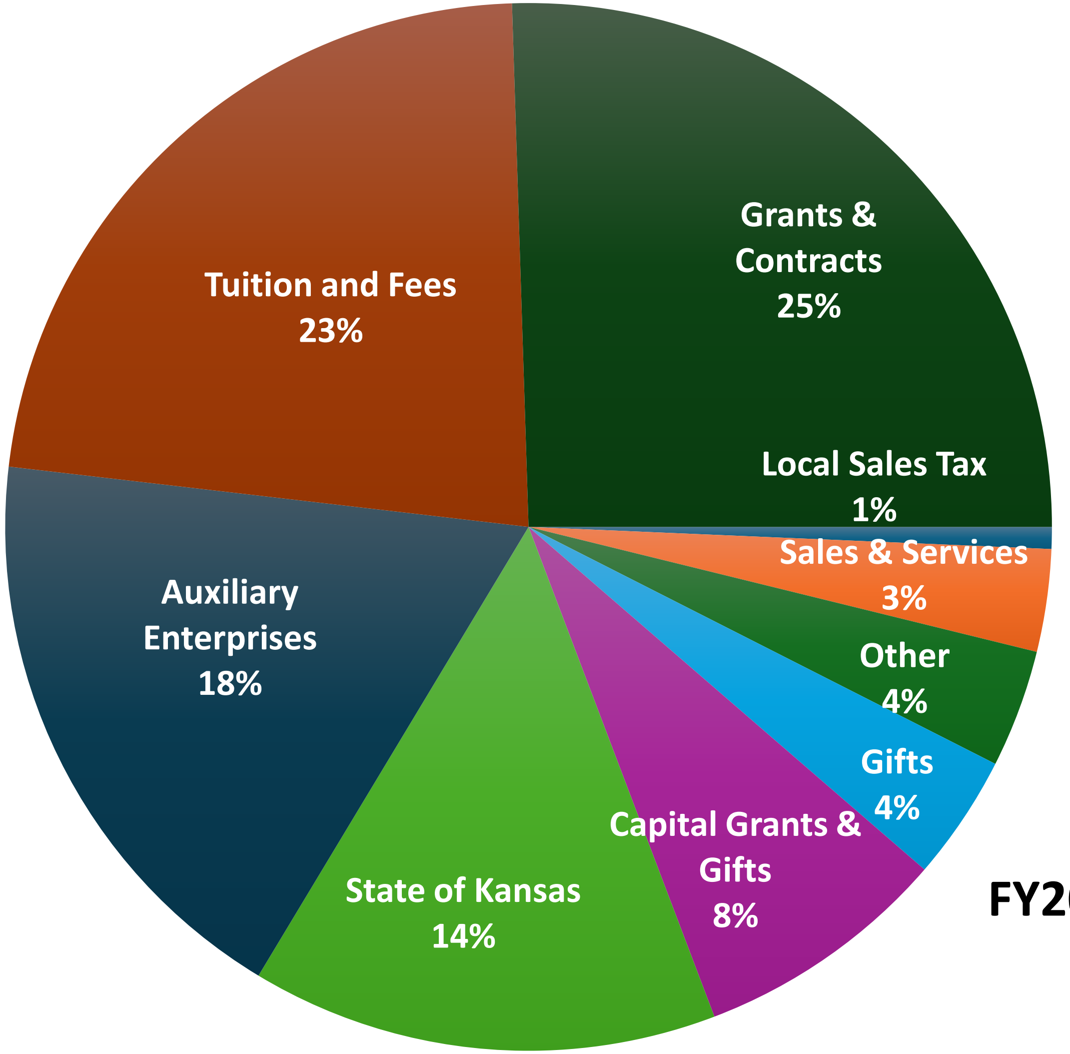
III. KU Lawrence/Edwards Financial Background

Where Does the Money Come From?



$1.1B
FY2024 Total Revenue

Grants & Contracts and Tuition represent the largest sources of revenue.

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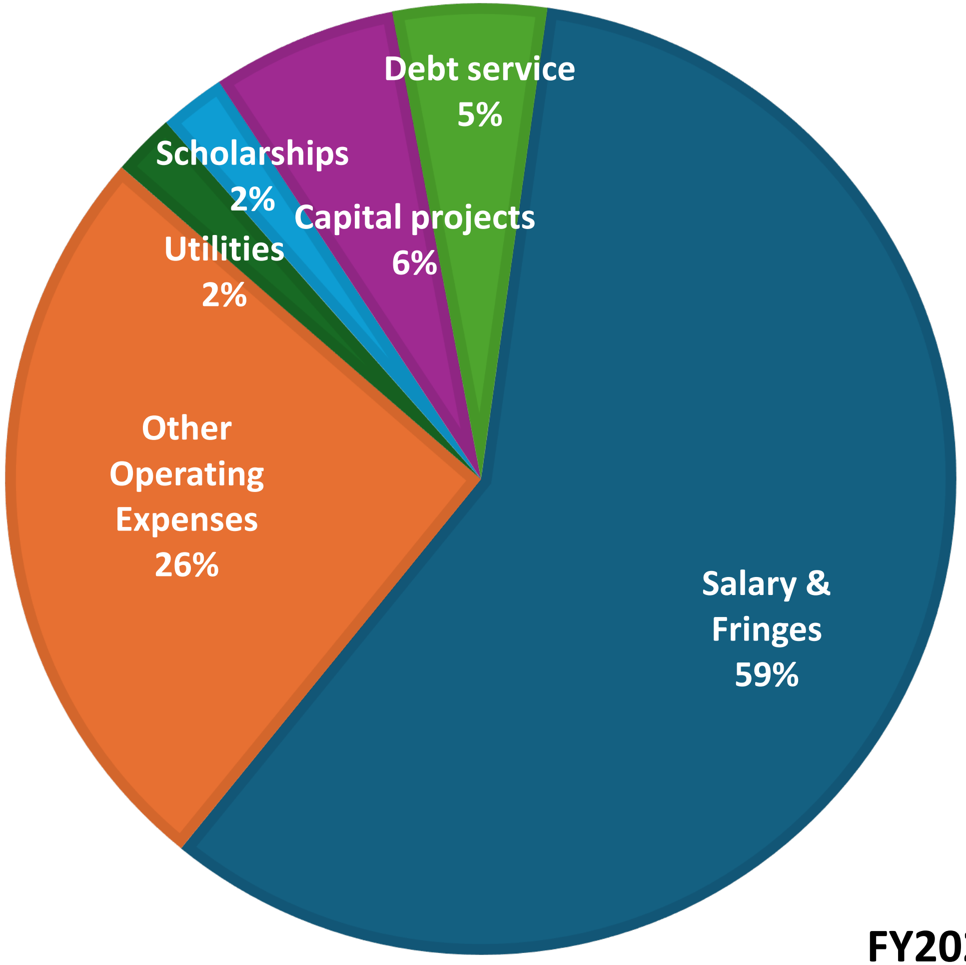
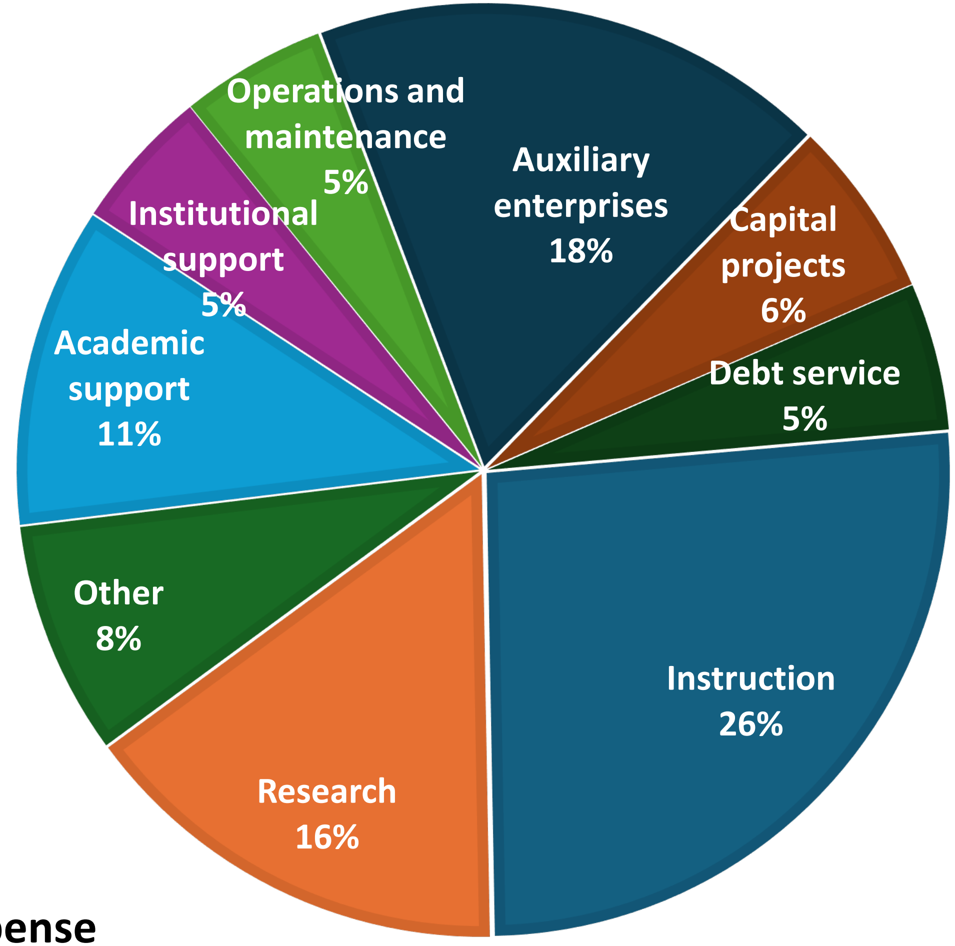
III. KU Lawrence/Edwards Financial Background

Where Does the Money Go?



Expense Categories



Functional Categories

$1.1B
FY2024 Total Expense

Salary & Fringes represents the largest expense.

Instruction represents largest functional cost.

Note: Does not include the Gateway Project

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III. KU Lawrence/Edwards Impact of Challenges

Market pay gap estimated at $30M per year ($17.6M general use) **NEW IN FORECAST***

2.5% inflation = $47M on general use compensation by FY2029

Uncertainty of future State funding increases
FY2026 - $3.7M for pay, remainder flat or decreasing

Losses due to reductions in F&A levels absorbed initially by KUCR but future unknown (may exceed $10M per year)

New Facilities – School of Architecture debt service of $3.8M each by FY2028 and $400k operating expenses begin FY2029 **NEW IN FORECAST**

Athletics' reduced ability to maintain current support to University **NEW IN FORECAST**

*The University recognizes its collective bargaining obligations to meet and confer in good faith with each of the recognized bargaining units at the University. This estimate in no way suggests the University has made decisions or implemented wage actions in FY2026 for positions within a recognized bargaining unit.

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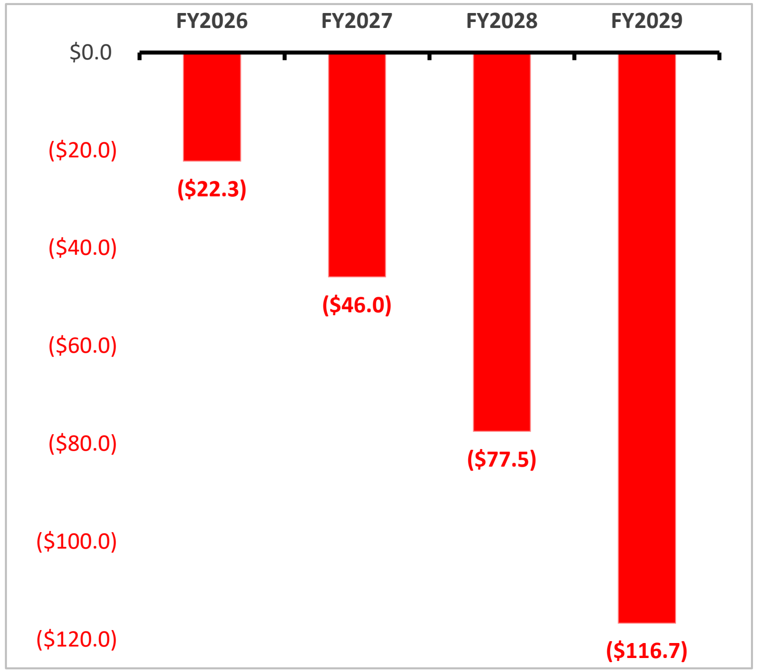
III. KULC Financial Forecast – General Use Operating Margins (Do Nothing)

In Millions	FY2024 Actuals	FY2025 Projected	FY2026 Projected	FY2027 Projected	FY2028 Projected	FY2029 Projected
Sources						
Total	**$462.8**	**$494.2**	**$530.4**	**$545.5**	**$555.6**	**$563.3**
Uses						
Salary & Fringes	$343.7	$364.8	$386.4	$402.2	$417.6	$431.6
OOE + Debt Service	$121.9	130.2	166.3	167.0	169.6	170.9
Total	**$465.6**	**$495.0**	**$552.7**	**$569.2**	**$587.1**	**$602.5**
Operating Margin	**($2.8)**	**($0.8)**	**($22.3)**	**($23.7)**	**($31.5)**	**($39.2)**
Cumulative Op Margin	**-**	**-**	**($22.3)**	**($46.0)**	**($77.5)**	**($116.7)**

Cumulative Operating Deficit



- *Plus $12 million one-time needs*
- *Assumes Federal changes to research funding are absorbed by KUCR*
- *Cash reserves will not cover the negative margins*
- *Assumes other fund reserves remain stable*

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III. KULC Solutions

Spend Reductions – all funds (any exceptions must be appealed)

- Effective July 1, 2025
  - 20% travel reduction
  - 5% OOE reduction
- By January 1, 2026
  - Additional $20M in increased revenue and/or reduction in expenses and headcount
- Increase All Funds assessment

<u>The following initiatives must be implemented and successful for future phases of market pay:</u>

Efficiencies

- Comprehensive procurement reform
- Comprehensive finance and budget reform (budgeting all revenues and expenses with quarterly reporting for accountability of spending of all funds)
- Administrative and academic program efficiency reviews
- Participation in Jayhawks Elevate (continuous improvement)

Revenue Enhancement

- Participation and implementation of Jayhawk Global and Jayhawk Flex (CBE)
- Expand and diversify research funding
- Gateway project completion (conference center, hotel, retail, and housing)
- Participation in conference & events initiatives

Note: Additional reductions may be needed depending on higher education external environment and governmental and economic factors.

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IV. KUMC Financial Background, Forecast, & Solution

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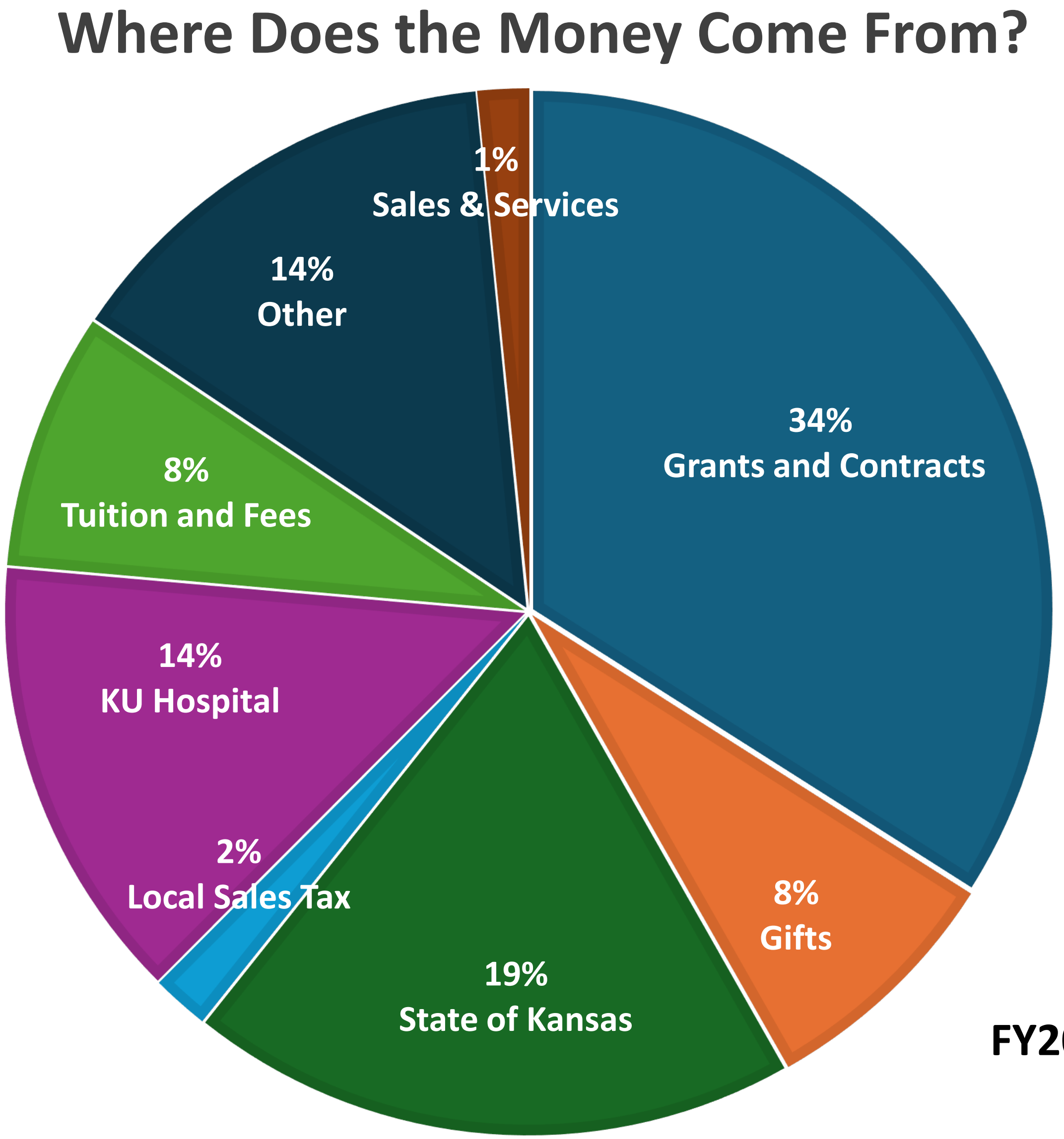
IV. KUMC Financial Background



$672M
FY2024 Total Revenue

Grants & Contracts represent largest source of revenue.

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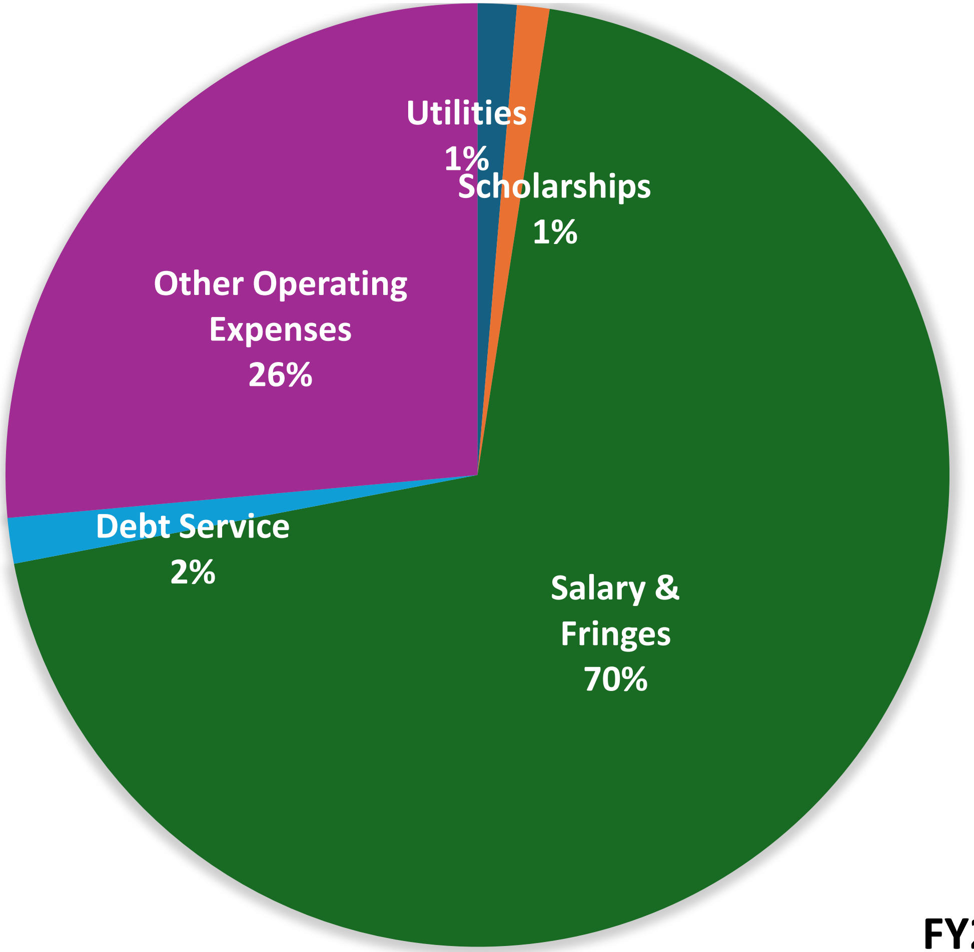
IV. KUMC Financial Background

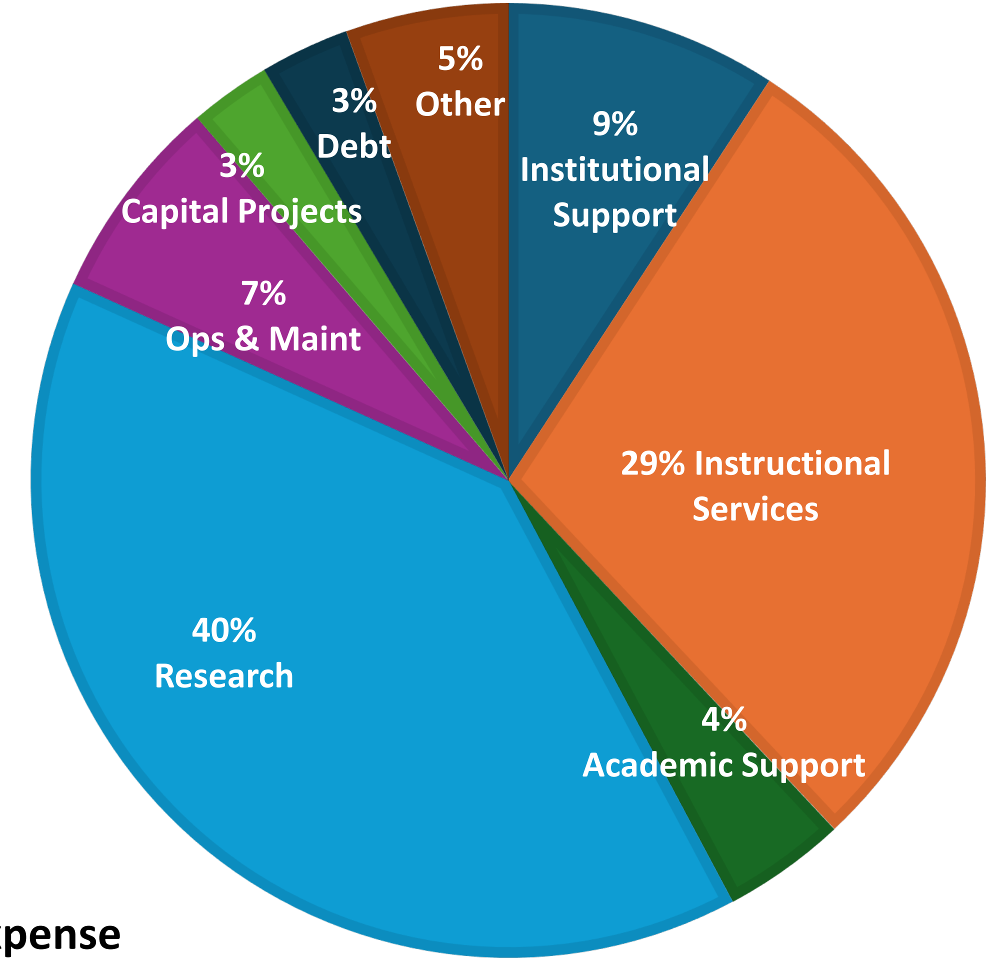
Where Does the Money Go?



Expense Categories

Salary & Fringes represents the largest expense.

$671M
FY2024 Total Expense



Functional Categories

Research & Instructional Services represents largest functional cost.

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IV. KUMC Impact of Challenges

Market pay gap estimated at $20M per year

2.5% inflation = $50M on payroll alone by FY2029

Uncertainty of future State funding increases
FY2026 - $3M for pay, remainder flat or decreasing

Losses = $20M - $40M per year due to reductions in F&A levels

New Facilities – Cancer Center and Wichita Biomedical operating expenses = $9M by FY2029 & $7M per year in debt service

Athletics' reduced ability to maintain current support to University

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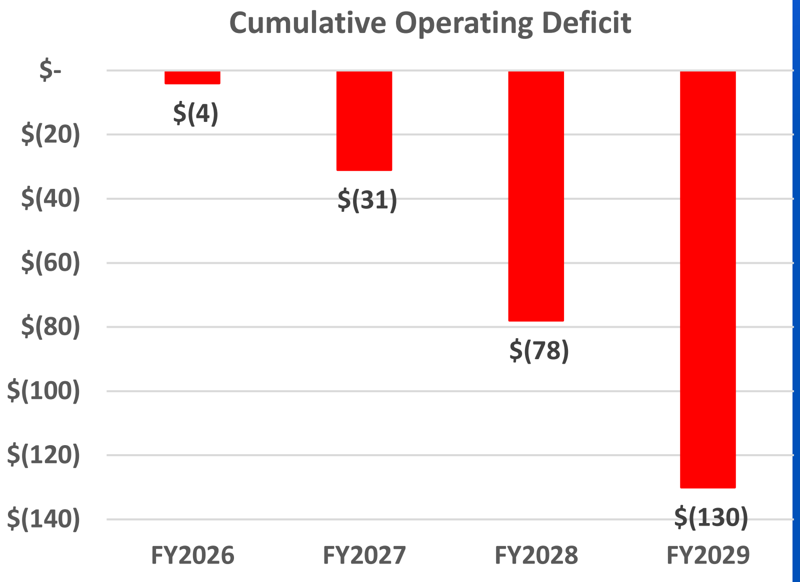
IV. KUMC Financial Forecast – Operating Margins (Do Nothing)

In Millions	FY2024 Actuals	FY2025 Projected	FY2026 Projected	FY2027 Projected	FY2028 Projected	FY2029 Projected
Sources						
Total	**$672**	**$721**	**$746**	**$770**	**$809**	**$856**
Uses						
Salary & Fringes	456	485	497	519	541	558
OOE + Debt Service	215	224	253	278	315	350
Total	**671**	**709**	**750**	**797**	**856**	**908**
Operating Margin	**1**	**12**	**(4)**	**(27)**	**(47)**	**(52)**
Cumulative Op Margin	**$1**	**$12**	**($4)**	**($31)**	**($78)**	**($130)**



❖ *Plus $47 million in one-time capital needs*

❖ *Cash reserves will not cover the negative margins*

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IV. KUMC Solutions

Solutions require full implementation by the end of FY2026 providing opportunities for improvements and efficiencies over the next 6 months.

- ❑KU Medical Center leadership has met routinely to analyze the budget and begin strategies for operational and financial improvement

- ❑Development of metrics for
  - Staffing
  - Compensation
  - Workflow
  - Operations

- ❑Working with ECG
  - ECG will assist our finance and leadership teams
  - Together we will develop financial and operational plans to make us sustainable

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IV. KUMC Solutions – Leadership Teams Established

- ❑Revenue mobilization
- ❑Funding and approval of employee positions (strategic hiring)
- ❑Programmatic review of educational and community-based programs
- ❑Faculty compensation and allocation
- ❑Supply chain/procurement, operations, budget, and travel

Additional reductions in workforce and programmatic areas are required if we are unable to achieve a balanced budget through strategic and capital initiatives.

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IV. KUMC Solutions - Long Range Goals

1. A monthly profit and loss statement with accurate and reliable revenue and cost allocation overall for the medical center and by business units including schools

2. A targeted margin for the campus that allows us to complete strategic planning for growth in research, education and capital costs; ~5%

3. True operational models including supply chain and procurement that function at best-in-class levels

4. Measured student and employee satisfaction in the top decile

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IV. What Can Make the Forecasts Better or Worse

Better

- F&A rates are maintained at current levels and federal research is supported as it has been historically
- Athlete revenue sharing is less burdensome to power four conferences or conference/donor funding materializes
- Inflation decreases
- State support becomes more positive
- Initiatives outperform forecast

Worse

- F&A rates drop below assumed 30% and are applied to all federal funding
- Athlete revenue sharing requirements increase with limited conference or donor support
- Enrollment (on-campus & online) projections are not realized
- Inflation exceeds 2.5% assumptions
- State support decreases rather than staying flat
- Initiatives underperform forecast
- Additional reductions in federal support
- Construction costs increase impacting new and maintenance projects
- Bond market continues the negative trend impacting forecasted debt service

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IV. 2026 Summary of University Financial Objectives

- ✓ Achieve progress to market pay for all employees
- ✓ Budget and forecast achievable results
- ✓ Eliminate unnecessary costs (be efficient)
- ✓ Capture funding opportunities
- ✓ Manage efficient operations
- ✓ Improve operating margins

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Thank You

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