

Financial Status of KU Lawrence / Edwards and the Five-Year Financial Plan
May 22, 2023

Jeff DeWitt, CFO & Executive Vice Chancellor

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Values Incorporated into the KU Lawrence/Edwards Financial Plan

- Provide High Value Education for Our Students
- Resilient and Sustainable Financial Future
- Plan for Market Pay and a Work Environment to Retain and Attract High Quality Employees
- Support for Research and Educational Activities of Faculty, Staff and Students (facilities, IT, etc.)

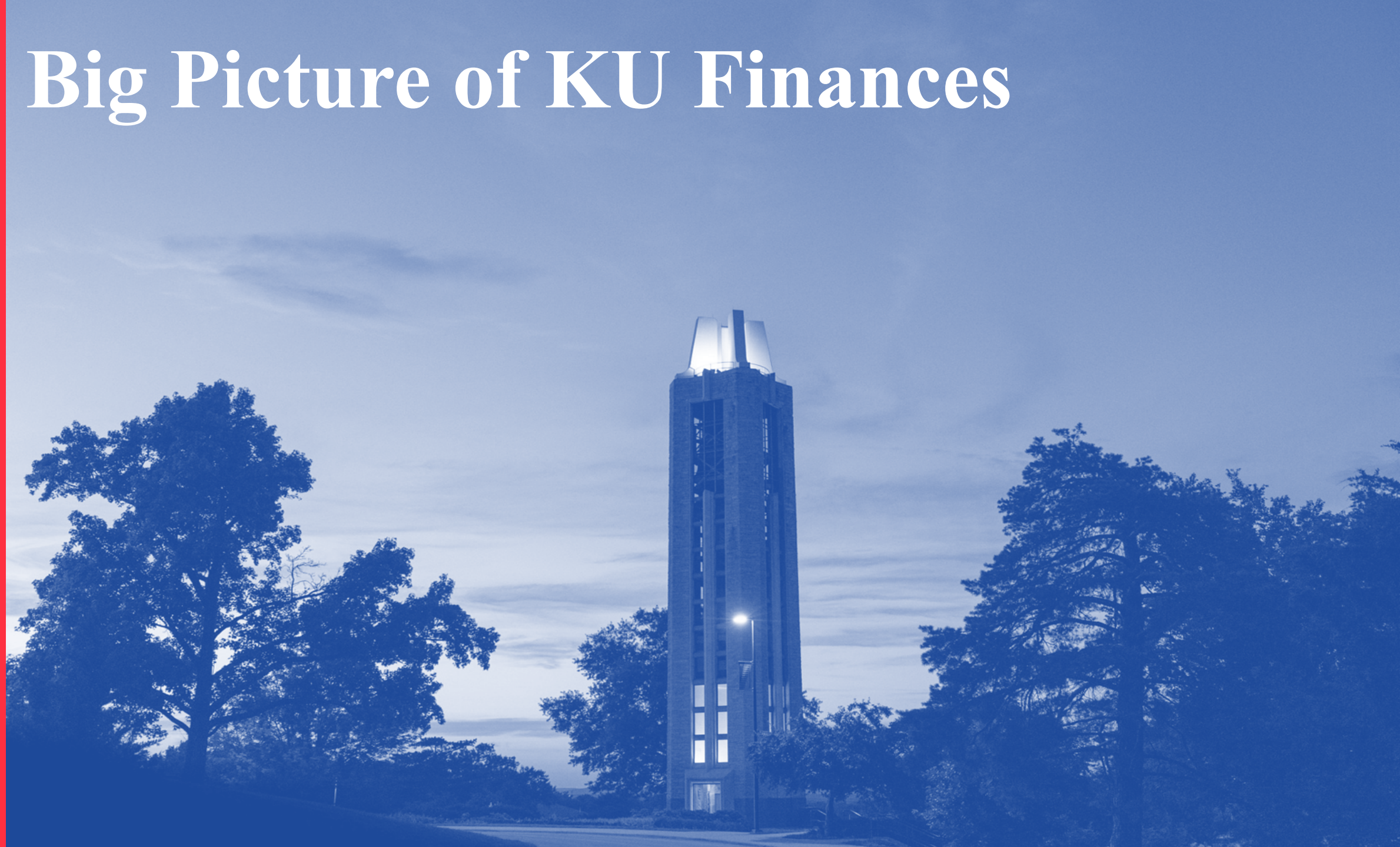
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Overview

- Big Picture of KU Finances
- Lawrence/Edwards Historical View of State General Fund and Tuition
- Financial Status Update & Five-Year Financial Plan (Structural Deficit)
- Addressing the Structural Deficit
- Revised Five-Year Financial Plan with Strategic Initiatives
- Attracting and Retaining a High-Quality Workforce
- Observations, Risks & Campus Actions

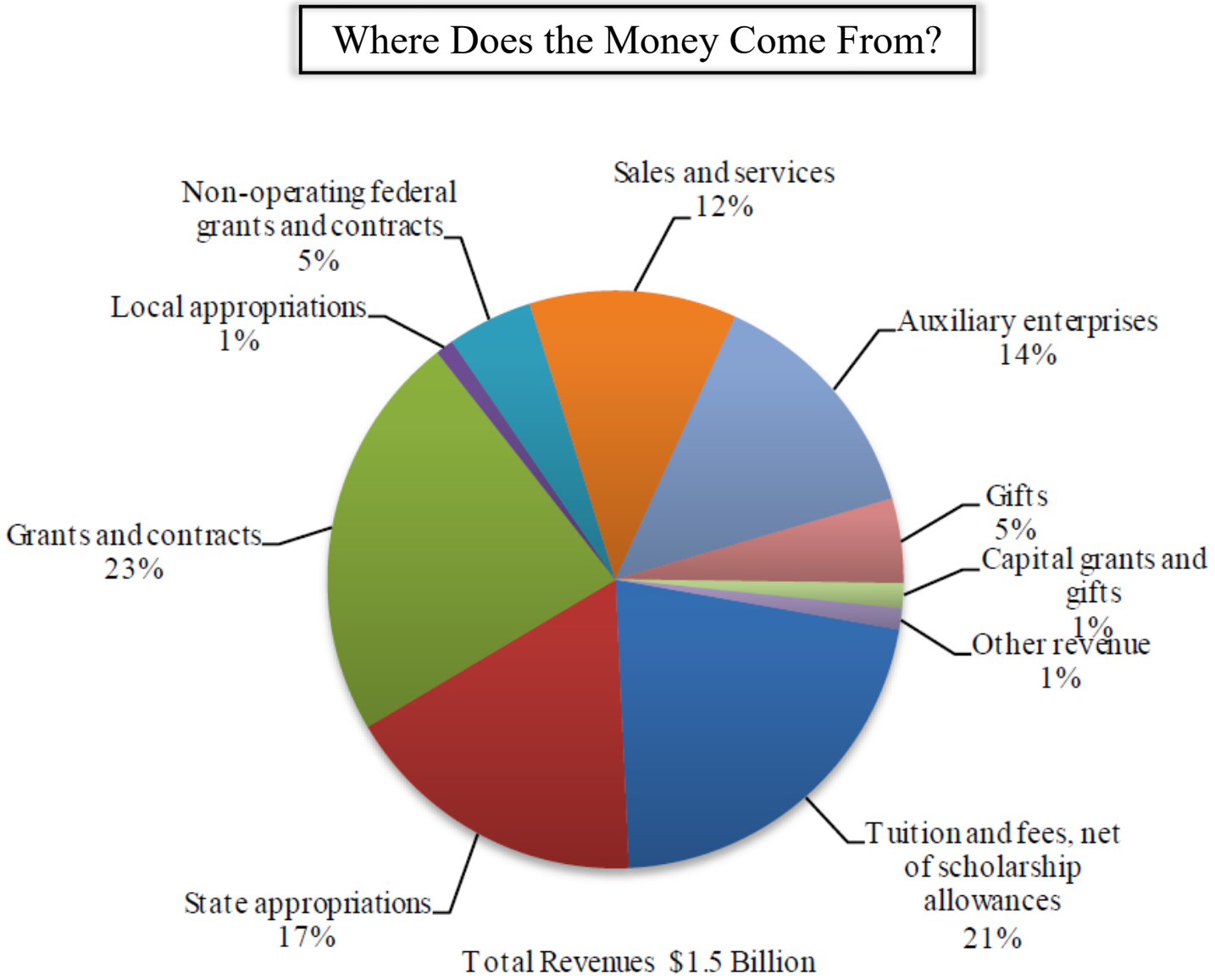
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Big Picture of KU Finances



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Big Picture – KU Generated Revenues of $1.5 Billion in FY2022



What Makes Up KU's Combined Financial Report?

University of Kansas – Lawrence/Edwards

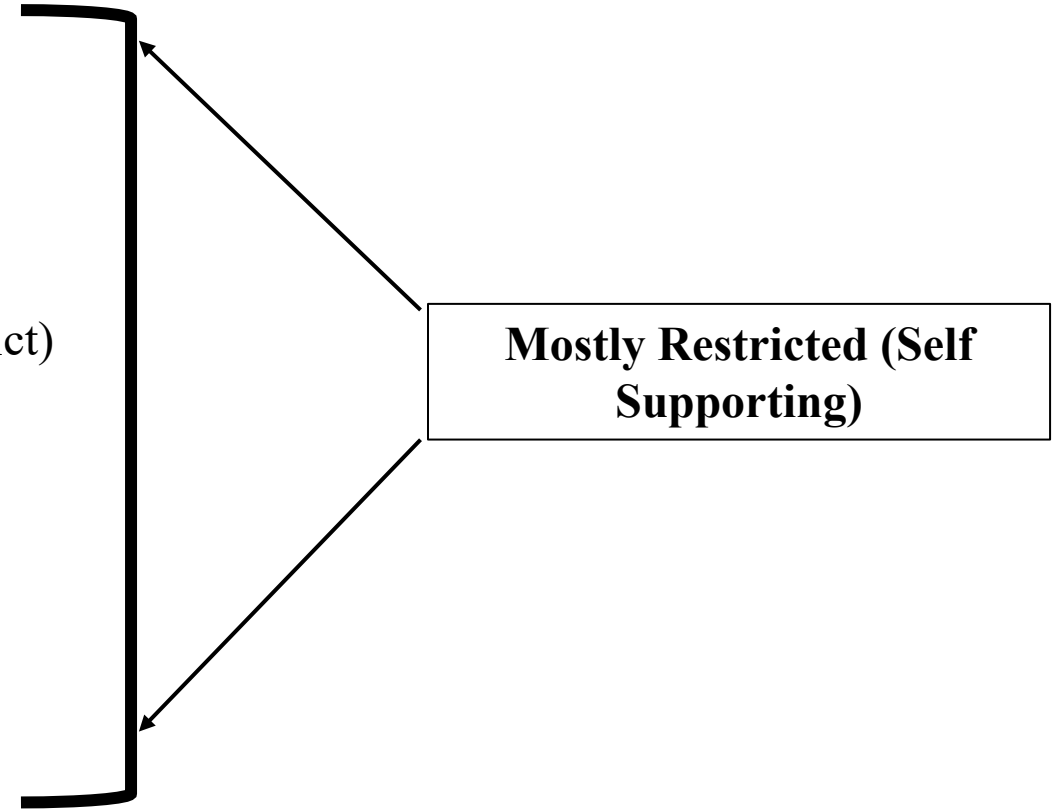
- ✓ Supported by State Funding and Tuition
- ✓ Supported by Other Revenues

University of Kansas – Affiliates: (501-C3s)

1. Kansas University Endowment Association (KUEA)
2. Kansas Athletics
3. KU Center for Research (KUCR)
4. Kansas Memorial Union Corporation (Union)
5. KU Campus Development Corporation (Central District)
6. Jayhawk Community Partners (JCP)

University of Kansas - Auxiliaries

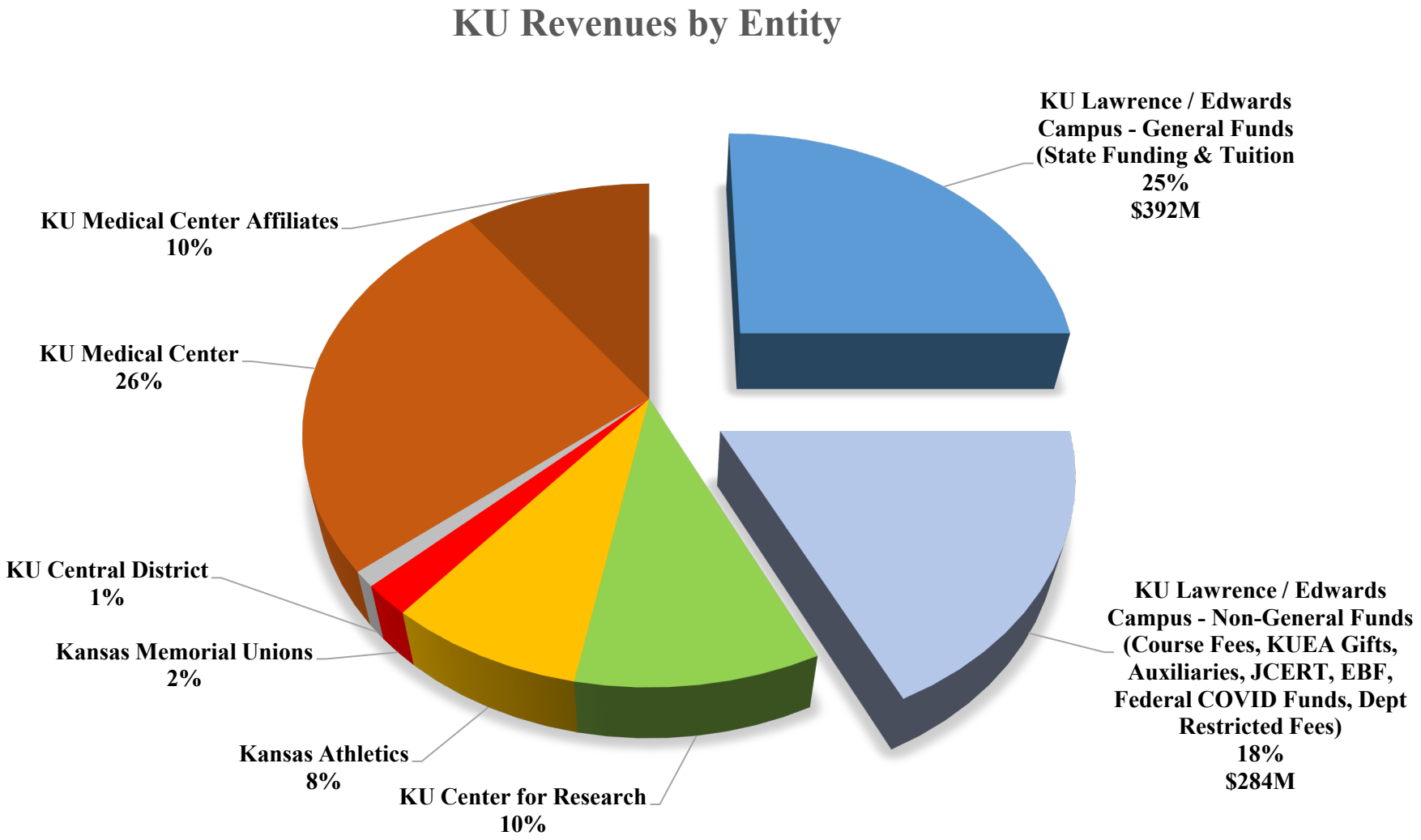
1. Student Housing
2. Watkins Health Services
3. KU Recreation Services
4. Parking & Transit



Kansas University Medical Center and Affiliates

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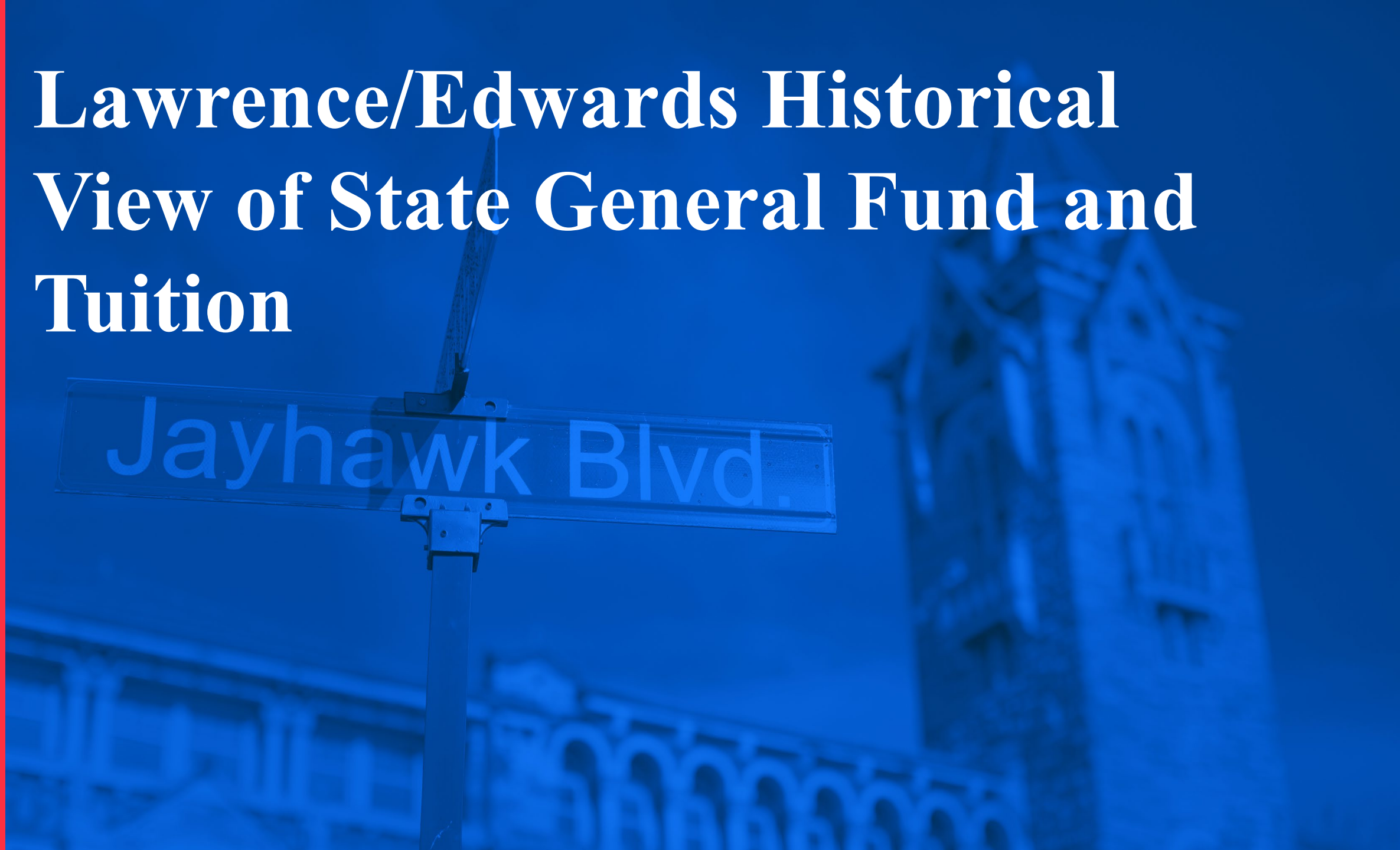
Picture of KU's Combined Financial Revenues



FY 2022 Total Consolidated Revenues = $1.5 Billion

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Lawrence/Edwards Historical View of State General Fund and Tuition



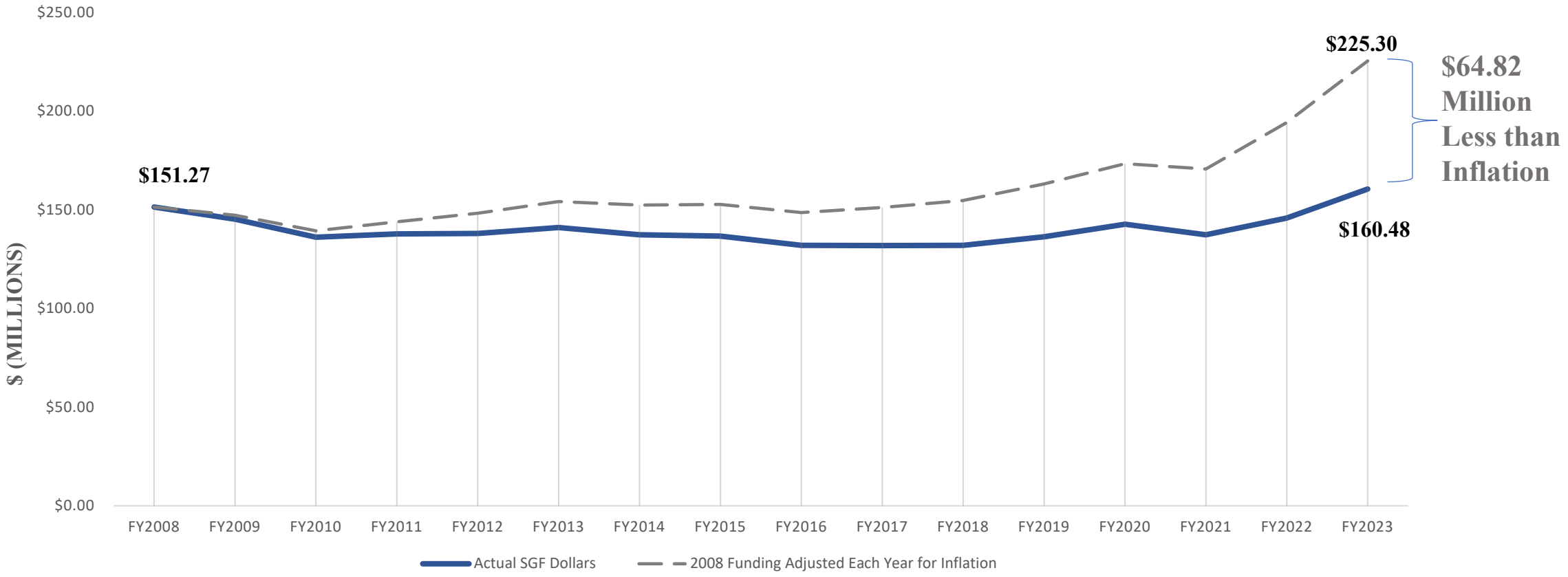
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Lawrence / Edwards State General Fund (SGF) Support

Inflation*:

$1.00 in FY 2008 is equal to $1.49 in FY 2023

$151.27 Million in FY 2008 is equal to $225.30 Million in FY 2023

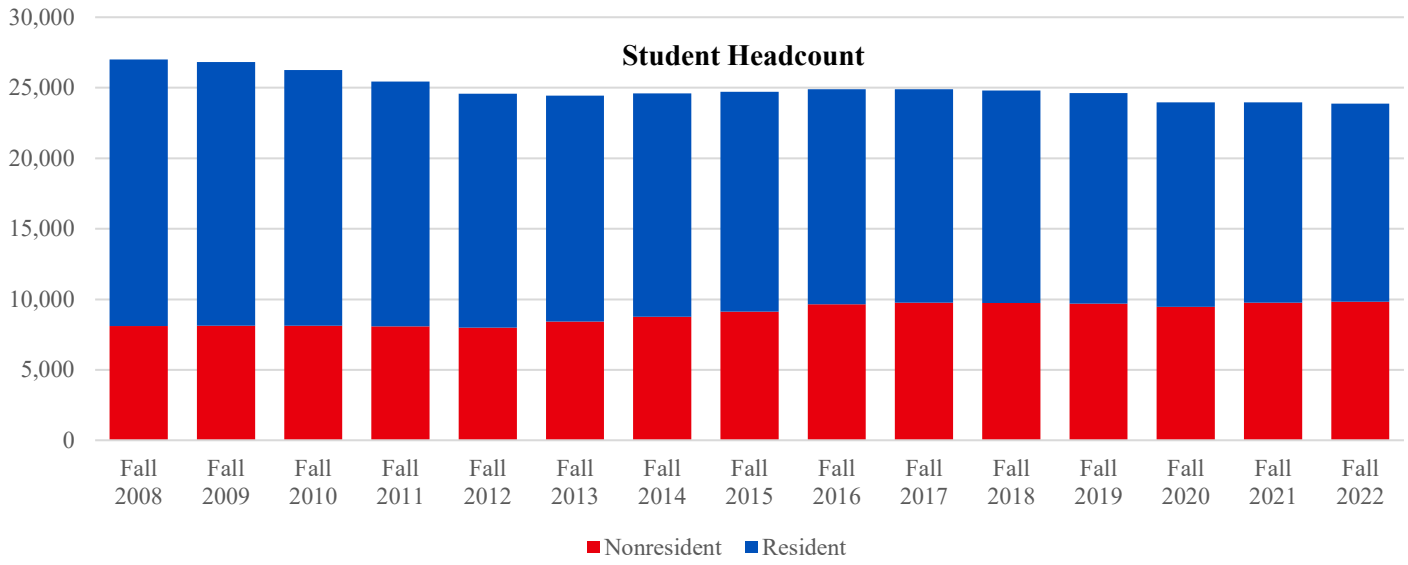


*Based on CPI Rates

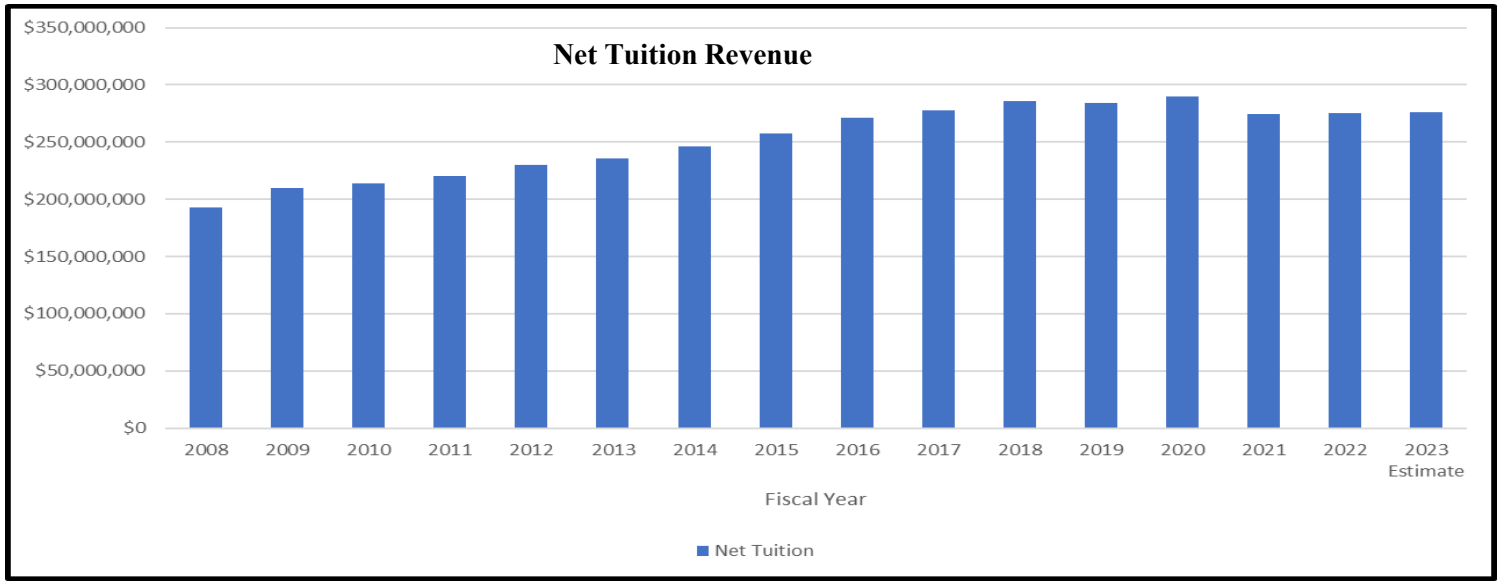
Includes All Lawrence & Edwards Campus State General Funds, Including the Kansas Geological Survey

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Student Headcount and Net Tuition Revenue KU Lawrence/Edwards

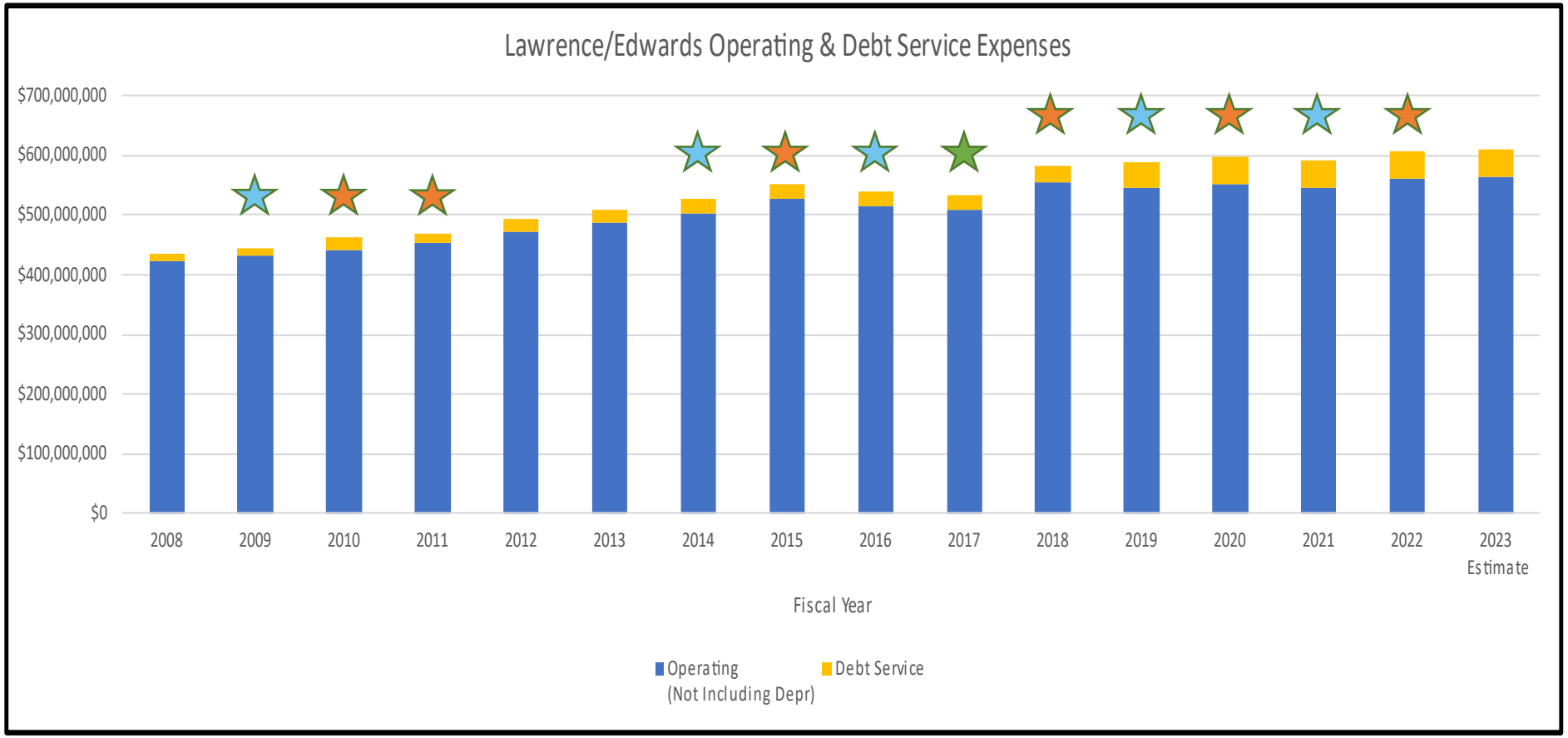


- ✓ Headcount Declined 5.9% from Fall 2019 to Fall 2022
- ✓ Resident Undergraduate Tuition Rates Held Flat Since Fall 2018



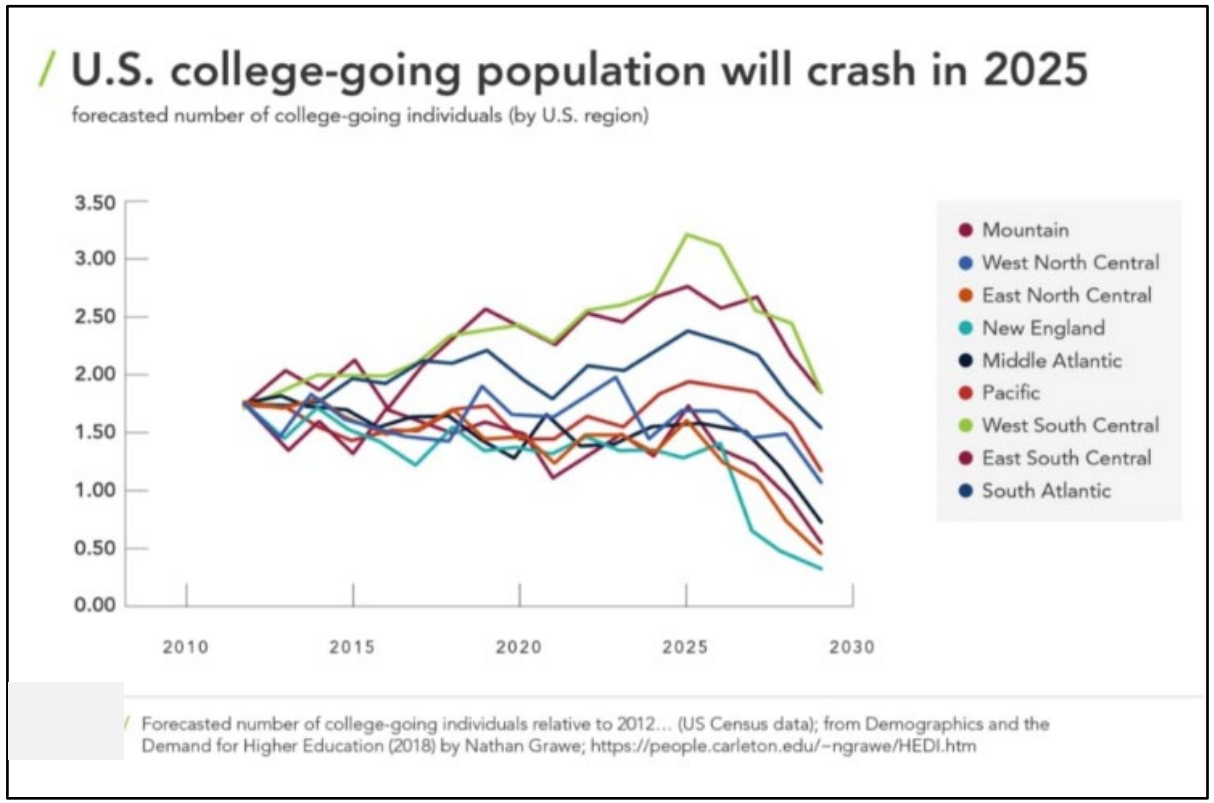
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KU Lawrence/Edwards Historical Expenses & Budget Cuts



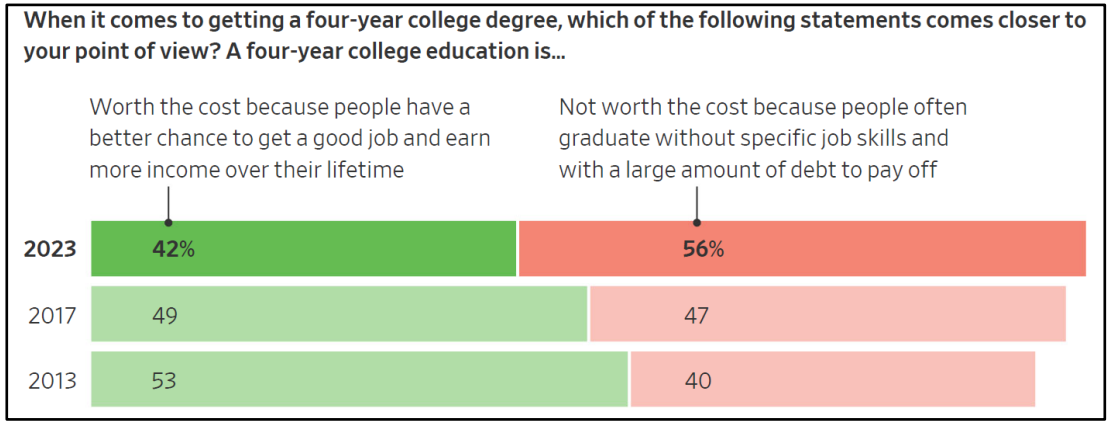
Over the last five years, since the last tuition increase, base general fund budget cuts have totaled $46 million.

Challenges Facing KU and Higher Education



Fewer high school graduates beginning in 2025

Smaller % of families believe a college degree is worth the cost



Source: Americans Are Losing Faith in College Education, WSJ-NORC Poll Finds (Mar 31, 2023) by Douglas Belkin; https://www.wsj.com/articles/americans-are-losing-faith-in-college-education-wsj-norc-poll-finds-3a836ce1

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Financial Status Update & Five-Year Financial Plan Lawrence/Edwards Campus

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Expected State Funding

	KU-Lawrence
KU FY2023 Operating SGF Budget	$153,417,833
KU Share of 5% State Employees Pay Adjustment	3,193,306
Fringe	916,936
NISS	2,000,000
FY2024 KU Operating SGF Budget	**$159,528,075**

Other Budget Additions:	**One-Time**
KU Share of $20.0M Facility Renewal (one-time)	$5,374,000

Other Budget Additions:	**For Distribution to all six KBOR Universities**
Financial Aid	24,000,000
Demolition Funding (one-time)	10,000,000
Cybersecurity & IT Infrastructure	5,000,000

Does not include Kansas Geological Survey

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Financial Forecast Key Assumptions – FY2024-FY2027

Assumptions	FY2024	FY2025-2027
State General Funding	Approved State Budget	2% Increase
Tuition Rate Growth	Proposed 5% Rate Increase	2.5% Rate Increase
Maintain Market Pay	**2.5% Pool Increase**	**2.5% Pool Increase**
Market Pay Phase 1	Funds After Structural Deficit Addressed	Funds After Structural Deficit Addressed
Operating Costs	2.0% Increase	2.5% Increase
Utility Costs	5% Increase	3% Increase
Deferred Maintenance	KBOR Policy	KBOR Policy
All Funds Initiative Established	$10M General Fund Alloc Reduction	$10M General Fund Alloc Reduction
Auxiliary/Affiliate Financial Support	None Needed	None Needed **

** Includes 11th & Mississippi

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KBOR Facility Maintenance Assessment

In June 2021, KBOR approved a required maintenance assessment to address deferred maintenance. The assessment is based on a percentage of the value of existing mission critical buildings. The assessment is phased in over the next six years and includes a credit for operational expenses.

Fiscal Year	Maintenace Assessment Net of Credit
FY 2023 (1/4%)	1,936,086
FY 2024 (1/2%)	3,849,294
FY 2025 (3/4%)	5,940,584
FY 2026 (1%)	11,558,341
FY 2027 (1 1/2%)	23,007,357
FY 2028 (2%)	34,909,711

Note: Since 2019 emergency repair requests down 62.2% and urgent repair requests down 40.1% due to increased resources and improved processes focused on deferred maintenance.

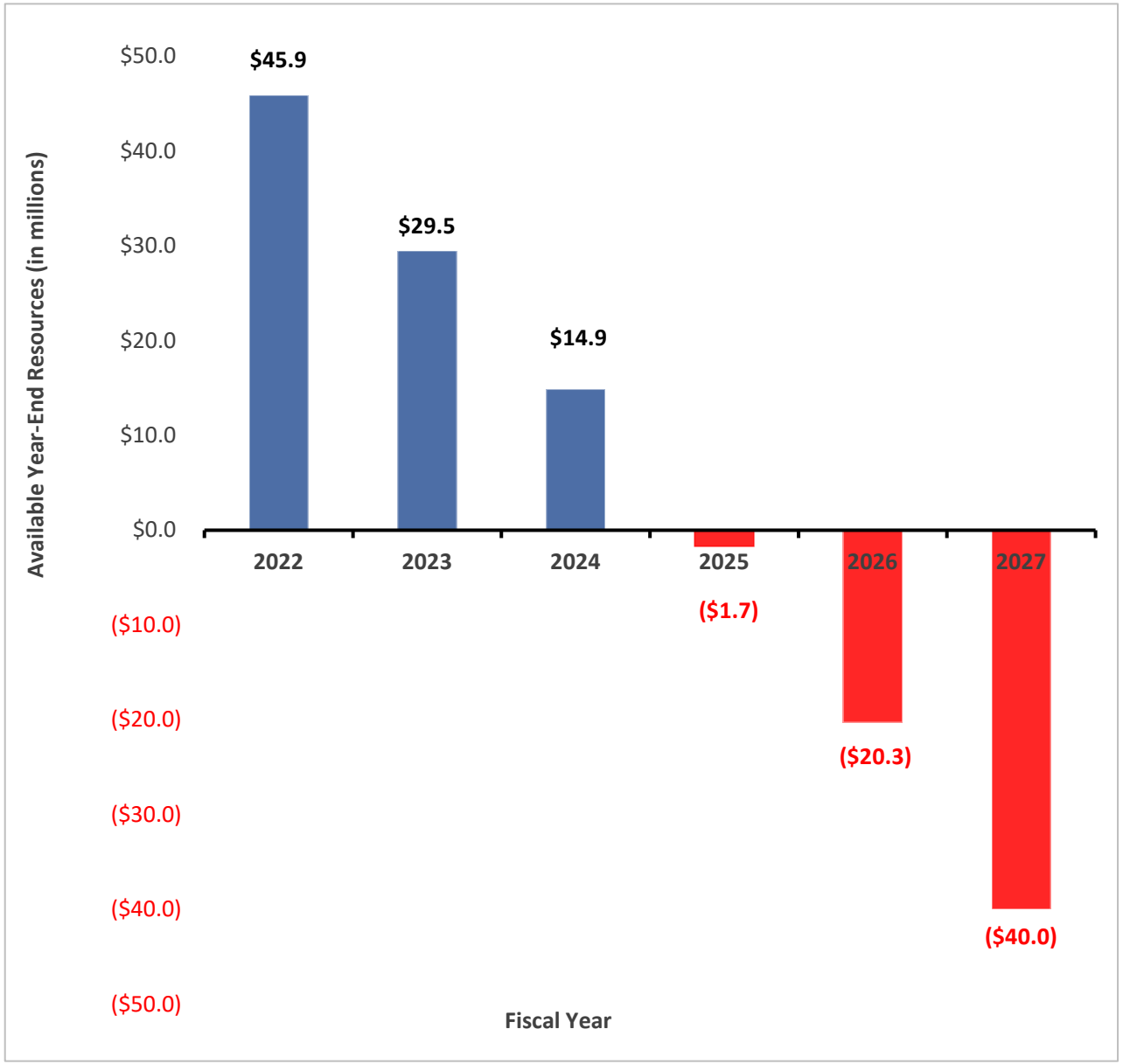
KU Lawrence/Edwards Campuses General Fund – Structural Deficit

In Millions	FY2022 Actuals	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected
Sources						
State Appropriations	$141.2	$153.4	$159.5	$162.7	$166.0	$169.3
Tuition & Fees	$261.6	265.3	278.3	285.1	292.1	299.3
Other	$11.8	11.7	11.9	12.0	12.1	12.2
Total	**$414.6**	**$430.4**	**$449.7**	**$459.8**	**$470.2**	**$480.8**
Uses						
Salary & Fringes	$301.7	$324.8	$343.2	$352.4	$361.9	$371.6
OOE	$66.4	71.0	68.5	70.5	72.5	74.5
Utilities	$17.4	19.1	19.9	20.5	21.1	21.8
Scholarships	$10.0	12.9	13.6	13.9	14.2	14.6
Debt Service	$19.0	19.0	19.1	19.1	19.1	18.0
Total	**$414.5**	**$446.8**	**$464.3**	**$476.4**	**$488.8**	**$500.5**
Operating Margin	**$0.1**	**($16.4)**	**($14.6)**	**($16.6)**	**($18.6)**	**($19.7)**
Carryforward	$45.8	$45.9	$29.5	$14.9	($1.7)	($20.3)
Available Year-End Resources	**$45.9**	**$29.5**	**$14.9**	**($1.7)**	**($20.3)**	**($40.0)**

Structural Deficit

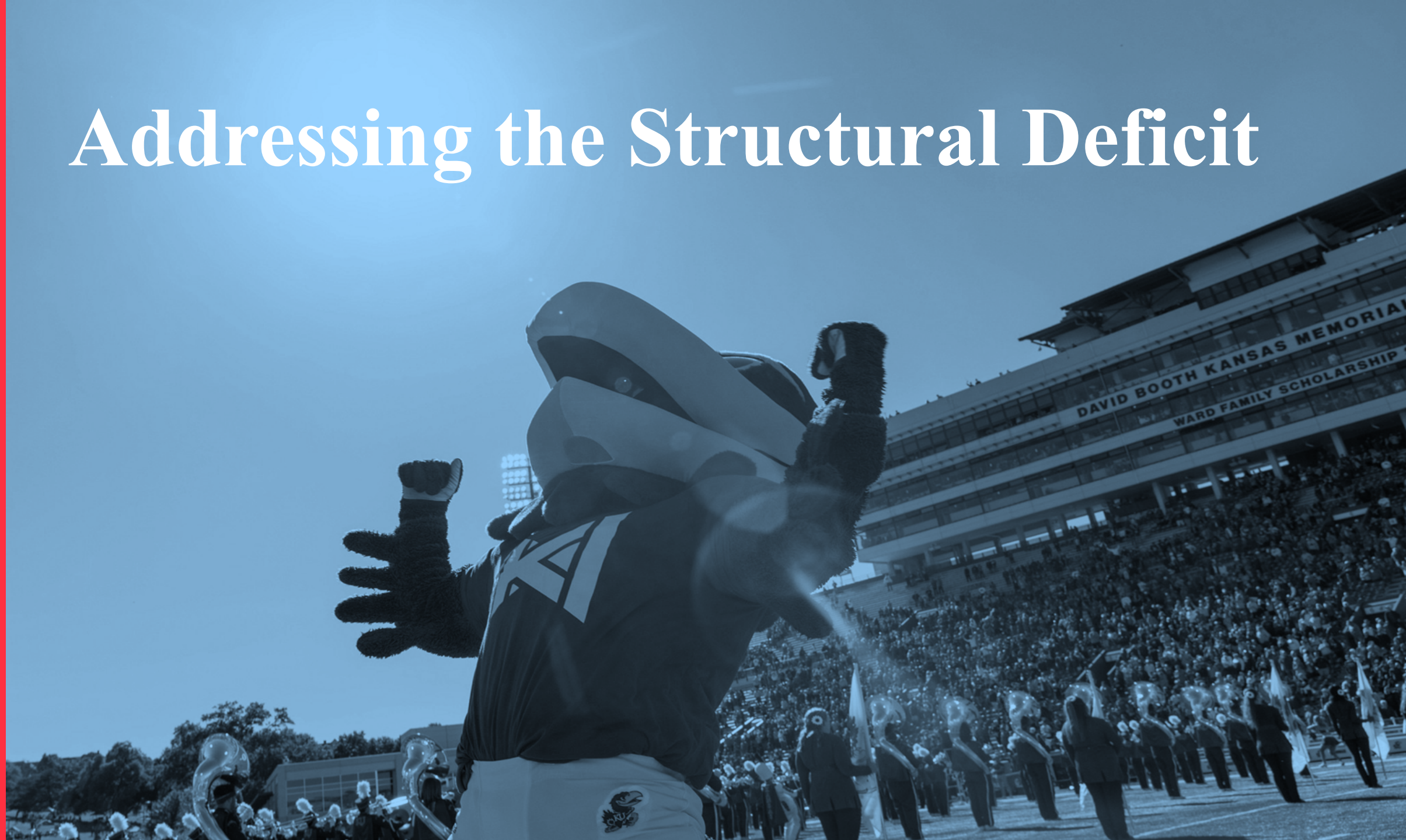
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The Five-Year Forecast – Structural Deficit



- Increase to State Appropriations based on Approved State Funding in FY2024 and 2.0% Ongoing
- Proposed 5% Tuition Rate Increase in FY2024 and 2.5% Ongoing
- 2.5% Increase in Salary Pool In FY2024 and 2.5% Ongoing
- 2.0% Increase in Operating Costs in FY2024 and 2.5% Ongoing to Reflect Inflation
- 5.0% Increase in Utilities Expense in FY2024 and 3.0% Ongoing.

Addressing the Structural Deficit



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Addressing the Structural Deficit

JAYHAWKS // RISING

Implementing Strategic Initiatives Aligned with Jayhawks Rising Strategic Plan to Increase Revenue or Decrease Expenditures

- ✓ All Funds Budgeting Implemented in FY23 and Reflected in Base Forecast

- ➢ Strategic Enrollment Management
- ➢ Conventions and Events
- ➢ Continuous Improvements

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Strategic Enrollment Management (SEM)

JAYHAWKS RISING
Student Success

Financial Plan Impact

	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected
Net Impact	($1,114,290)	($3,397,555)	$327,644	$10,430,730	$15,261,513

Actions Taken

- ✓ Developed Organizational Structure and Business Plan for Jayhawk Global
- ✓ Increased and Focused Marketing to Prospective Students
- ✓ Pricing and Student Aid Optimizations
- ✓ Increased Support Toward Retention and Graduation

Actions Needed

- ❑ Continue Above Actions
- ❑ Fully Deploy Jayhawk Global
- ❑ Focus on Business Relationship Needs

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SEM Student Success - Retention

JAYHAWKS RISING
Student Success

A Retention Strategy is as Effective as a Growth Strategy and Demonstrates the Value of a KU Education.

Actions Taken

- ✓ Alignment of Academic Advising Creating a Consistent, Proactive Student Experience
- ✓ Student Success Model Designed for Student Retention, Progression and Completion.
- ✓ Created a Navigator and Jayhawk GPS model for Coordinated and Intentional Outreach
- ✓ Student Financial Experience Workgroup Established

Actions Needed

- ❑ Create Student-Centered Culture to Improve the KU Experience
- ❑ Scholarship Alignment Prioritizing Early and Full Aid Packaging to Maximize Recruitment and Retention Efforts
- ❑ Implement Degree Maps and Collaborate for Timely, Accurate Degree Requirement Information
- ❑ Connect Undergraduate Students Earlier with Career Pathways and Services

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Conventions & Events

JAYHAWKS RISING
Healthy and Vibrant Communities

Financial Plan Impact

	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected
Net Impact	$375,000	$700,000	$900,000	$3,400,000	$5,200,000

Actions Taken

- ✓ Developed Organizational Structure and Launched Jayhawk Hospitality Webpage
- ✓ Successfully launched campus-wide partnerships
- ✓ Hired an Executive Director and General Sales Manager
- ✓ Purchased Central Scheduling Software
- ✓ Identified Spaces Available for Booking

Actions Needed

- ❑ Implement Central Scheduling of Space
- ❑ Develop Comprehensive Pricing and Revenue Sharing Agreements
- ❑ Expand Sales Team
- ❑ Deliver New and Significant Conferences at KU

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Continuous Improvement (CI)

JAYHAWKS RISING

Improve Stewardship of the Institution

Financial Plan Impact

	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected
Net Impact	$250,000	$2,500,000	$6,200,000	$8,100,000	$10,125,000

Actions Taken

- ✓ Employee Empowerment Idea Portal Created
- ✓ Supervisor Training Developed
- ✓ Progress Toward Procurement Transformation
- ✓ Phase 1: Introduced to Central Administration With Over 85 Ideas to Date

Actions Needed

- ❑ Phase 2: CI Rolled out to Entire Campus in FY 2024
- ❑ Budget Process Reform to Capture Savings
- ❑ Implement Campus-Wide Procurement Efficiencies
- ❑ Continuous Improvement Savings Deployed

  Employee Pay; Deferred Maintenance; Strategic Initiatives

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Addressing the Structural Deficit

JAYHAWKS // RISING

Financial Plan Impact

	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected
All Funds (Implemented FY2023)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Strategic Enrollment Management	(1,114,290)	(3,397,555)	327,644	10,430,730	15,261,513
Convention & Events	375,000	700,000	900,000	3,400,000	5,200,000
Continuous Improvement	250,000	2,500,000	6,200,000	8,100,000	10,125,000
Net Impact of Strategic Initiatives	**$ (489,290)**	**$ (197,555)**	**$ 7,427,644**	**$ 21,930,730**	**$ 30,586,513**

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Revised Five-Year Financial Plan with Strategic Initiatives

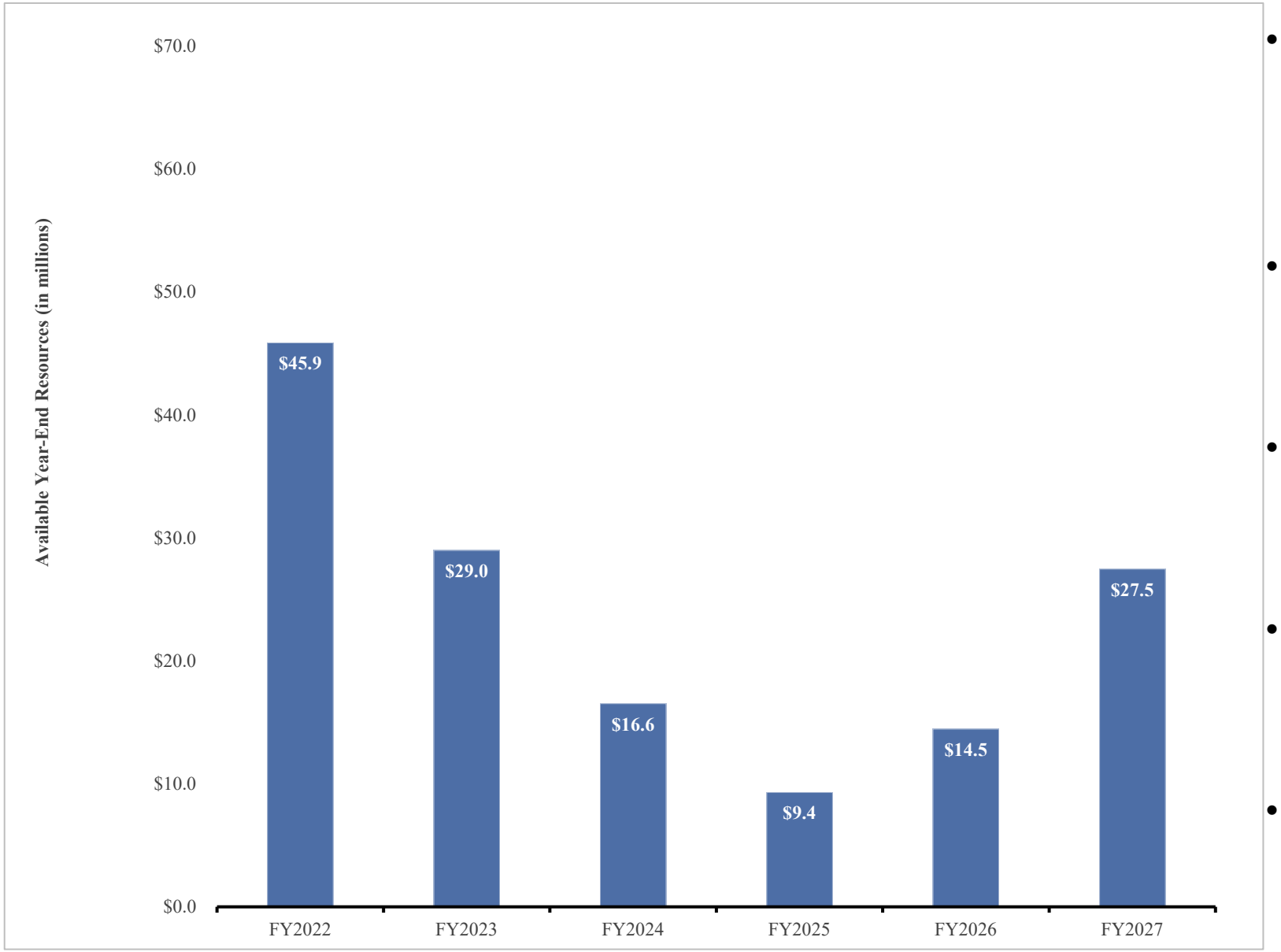
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Revised Five-Year Forecast with Strategic Initiatives

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Total	**$414.5**	**$446.8**	**$464.3**	**$476.4**	**$488.8**	**$500.5**
Operating Margin	**$0.1**	**($16.4)**	**($14.6)**	**($16.6)**	**($18.6)**	**($19.7)**
Impact of Strategic Initiatives (SI)	**$0.0**	**($0.5)**	**$2.1**	**$9.4**	**$23.7**	**$32.7**
Operating Margin With SI	**$0.1**	**($16.9)**	**($12.5)**	**($7.2)**	**$5.1**	**$13.0**
Carryforward	$45.8	$45.9	$29.0	$16.6	$9.4	$14.5
Available Year-End Resources	**$45.9**	**$29.0**	**$16.6**	**$9.4**	**$14.5**	**$27.5**

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The Five-Year Forecast with Strategic Initiatives



- Increase to State Appropriations based on Approved State Funding in FY2024 and 2.0% Ongoing
- Proposed 5.0% Tuition Rate Increase in FY2024 and 2.5% Ongoing
- 2.5% Increase in Salary Pool In FY2024 and 2.5% Ongoing
- 2.0% Increase in Operating Costs in FY2024 and 2.5% Ongoing to Reflect Inflation
- 5.0% Increase in Utilities Expense in FY2024 and 3.0% Ongoing.

Attracting and Retaining a High-Quality Workforce



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Addressing Challenges to Attract and Retain a High-Quality Workforce

- **The Base Financial Plan Builds Annual Increases into Employee Pay**
- **The Base Financial Plan Prioritizes Finding Resources to Address Market Pay Gaps**
- **Move All Employees to Market Pay Through:**
  - ✓ Market pay studies for all employees to determine pay scales and policies to determine each employee's place (based on experience and performance)
  - ✓ Employ a third party to verify results
- **Funding Market Pay:**
  - ✓ Strategic Hiring - vacant positions will be analyzed and banked (if possible) to fund market pay
  - ✓ Portion of Continuous Improvement Savings will be directed to market pay
- **Improvements in the Performance Evaluation System Needed to Capture Merit Eligibility**

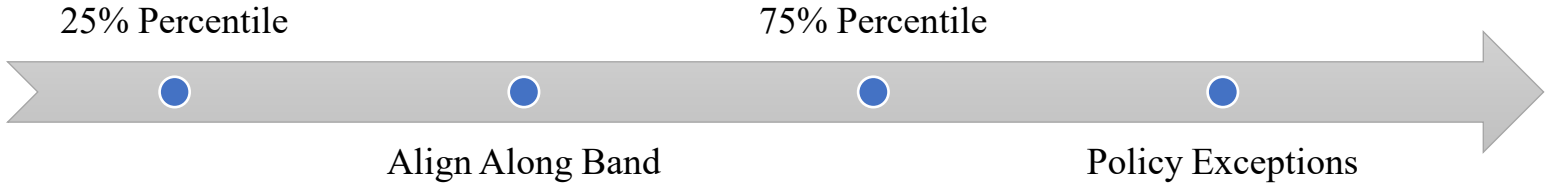
Employee Market Pay - Multi-year Initiative

Phase 1 – Band Determination & Adjustment of All Employees Toward the Minimum Band

- ✓ Policies and accompanying guidelines for compensation.
- ✓ Establish staff and faculty pay grade bands that determines the median midpoint pay with minimum (25th percentile) and maximum (75th percentile) targets.
- ✓ Determine and bring staff and faculty below the minimum (25th percentile) up to the minimum. This includes an update for living wages.

Phase 2 - Move All Employees to Market Pay Based on Cost and Available Funds

- ✓ Align faculty and staff to the appropriate place on the pay band, depending on years of service and performance



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Observations and Risks



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Observations from the Five-Year Financial Plan

- State funding last year and the approved budget for FY2024 helps support the five-year financial picture.
- Given inflation and other increased expenses, the proposed 5% tuition rate increase is critical to offset these costs.
- No budget reductions are required for FY2024.
- The plan uses considerable cash reserves to balance while critical strategic initiatives are implemented.
- Significant progress has been made however, strategic initiatives require considerable resources and focus to implement.
- The plan reflects the reality of inflation and places attracting and retaining employees as a priority.
- Market pay must be addressed through sound policies and systems, fiscal discipline, and savings from continuous improvement.

Our Risks

- Inflation Maintains Its Current High Levels for Multiple Years
- Future State Support Diminishes Below the Forecast
- Maintaining or Growing Enrollment During the Demographic Cliff
- Future Mandates Placed on the University
- Affiliates and Auxiliaries Cannot Remain Self-Supporting
- **Strategic Initiatives Underperform, are Delayed, or not Embraced**

What Can I Do To Support the Plan - Administration

- Ensure All Policies and Processes Improve the Student and Employee Experience
- Be Conscious of Your Role in Attracting and Retaining Students
- Partner With Jayhawk Hospitality on the Conferences and Events Initiative
- Provide Transparency, Clarity, and Accept Feedback Related to Campus Changes
- Promote a Spirit of Collaboration on all Strategic Initiatives as We Navigate the Necessary Changes to be Viable and Resilient

What Can I Do To Support the Plan - Academic

- Align Unit Strategic Plans With Jayhawks Rising Strategic Plan
- Actively Engage in Activities Improving Student Enrollment and Retention
- Develop New Programs with Engaging Experiences Meeting Student and Market Demand
- Actively Support and Participate in Jayhawk Global Activities to Grow Enrollment
- Pursue External Funding Opportunities for Research and Service
- Collaborate in the Use of Your Facilities for Research, Education and Conferences and Events on Campus
- Promote a Spirit of Collaboration on all Strategic Initiatives as We Navigate the Necessary Changes to be Viable and Resilient

Responsibilities of Everyone To Support the Plan

- Make Sure Our Students Have an Excellent Experience
- Be Good Stewards of KU Resources by Spending Effectively, Efficiently and Collaboratively
- Partner With Procurement Early to Ensure We Receive Quality Goods & Services at a Reasonable Price
- Actively Identify Ideas Where We Can Do Better and Participate in the Solutions - Participate in the Continuous Improvement Program when Available

Everyone is Responsible for a Student Experience that Ensures a High-Quality, Affordable Education

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Thank you



Presentation Available at:
https://finance.ku.edu/reports

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