



The Financial Status of KU Lawrence / Edwards and Next Steps

Jeff DeWitt, CFO & Executive Vice Chancellor

KU THE UNIVERSITY OF
KANSAS

The Financial Status of the KU Lawrence/Edwards and Next Steps

The Big Picture of KU Finances

The Combined Financial Picture of KU

How Did We Get Here? Role of Revenue Growth

How Did We Get Here? Role of Expense Growth

Establishing the Base to Forecast Ahead

The Key Assumptions of the Forecast

The Forecast! What is the Structural Deficit?

What Could Make it Better or Worse?

Next Steps

Q&A



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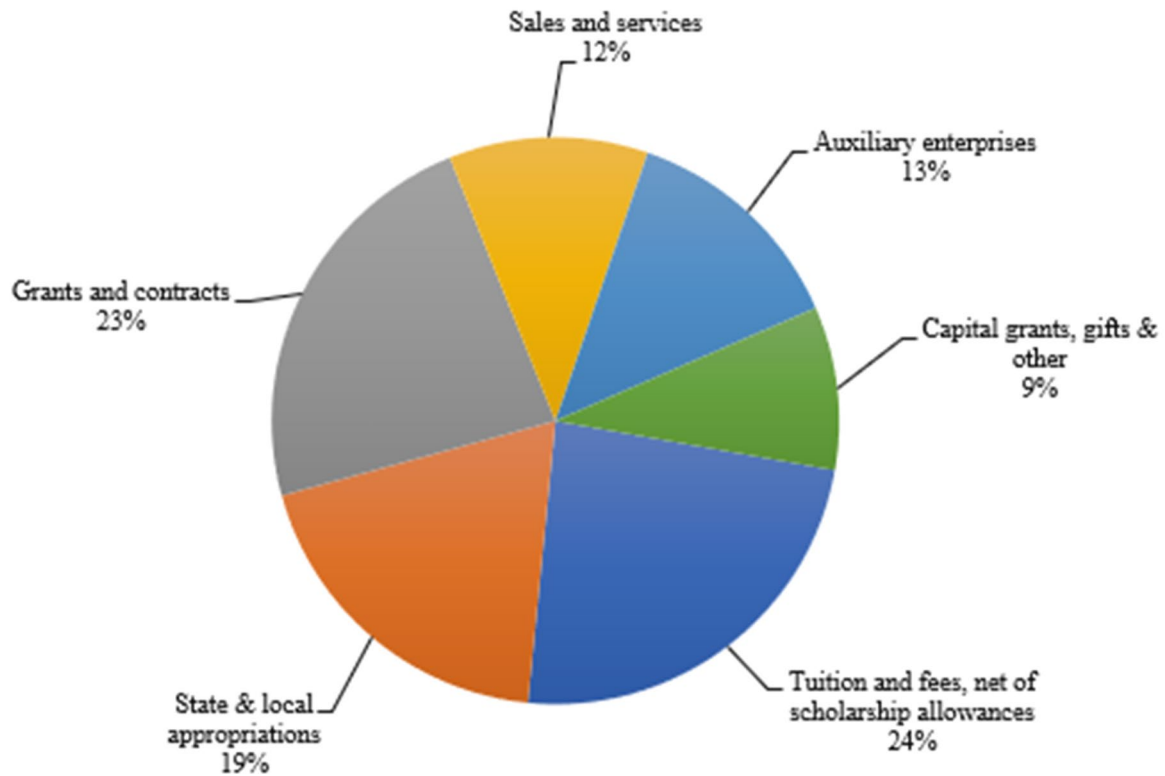
The Approach to Layout the Financial Picture

What are you about to see and hear?

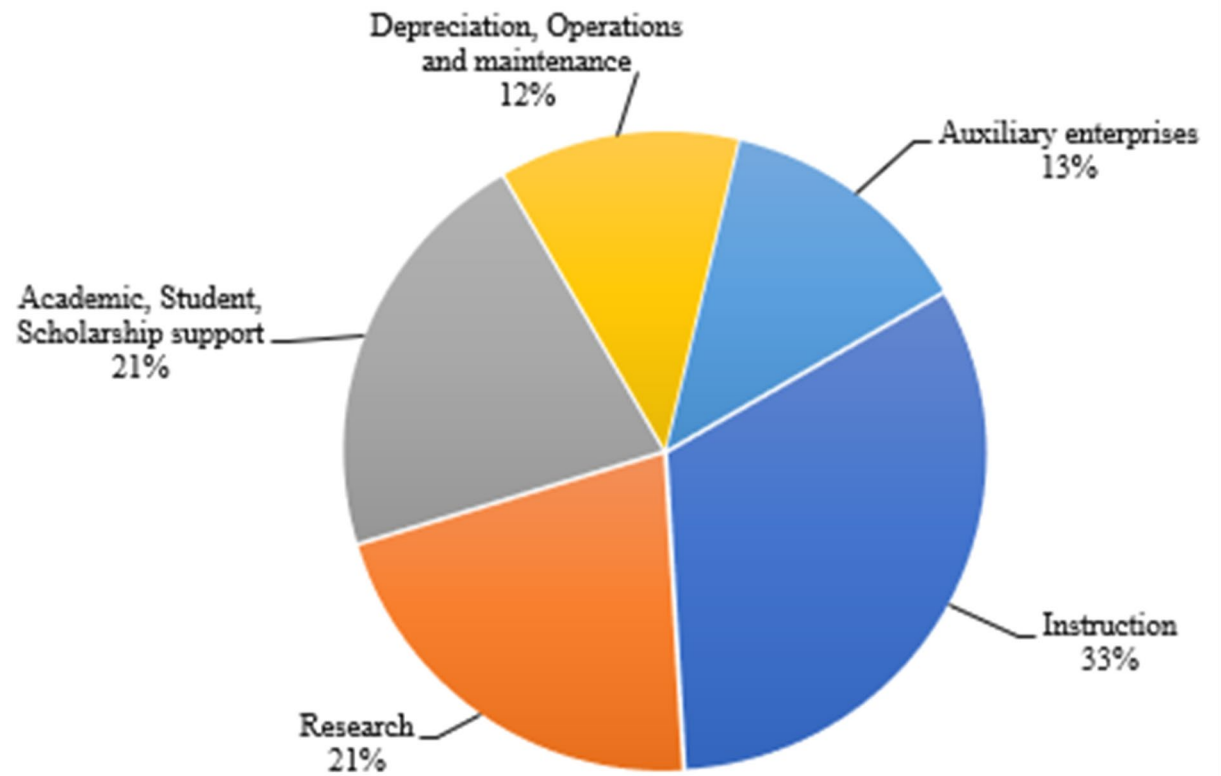
- ✓ Discussion of where we get our money and how we spend it
- ✓ The complex financial picture made more difficult since the only public document, the Annual Financial Report (AFR), shows combined financial information
- ✓ A review of what has happened to key revenue since the "Great Recession"
- ✓ A review of changes in expenses over same time period
- ✓ Setting the base for KU finances and breaking it down from the AFR to see what must be funded by State funding and Tuition
- ✓ Looking out past the budget year so any new problems are addressed before they occur (financial planning)
- ✓ Showing the financial deficit and strategies to address it

Big Picture - KU Generated Revenues of \$1.4 billion in FY 2020

Where Does the Money Come From?



Where Does the Money Go?



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 Corp. (Central District)

University of Kansas - Auxiliaries:

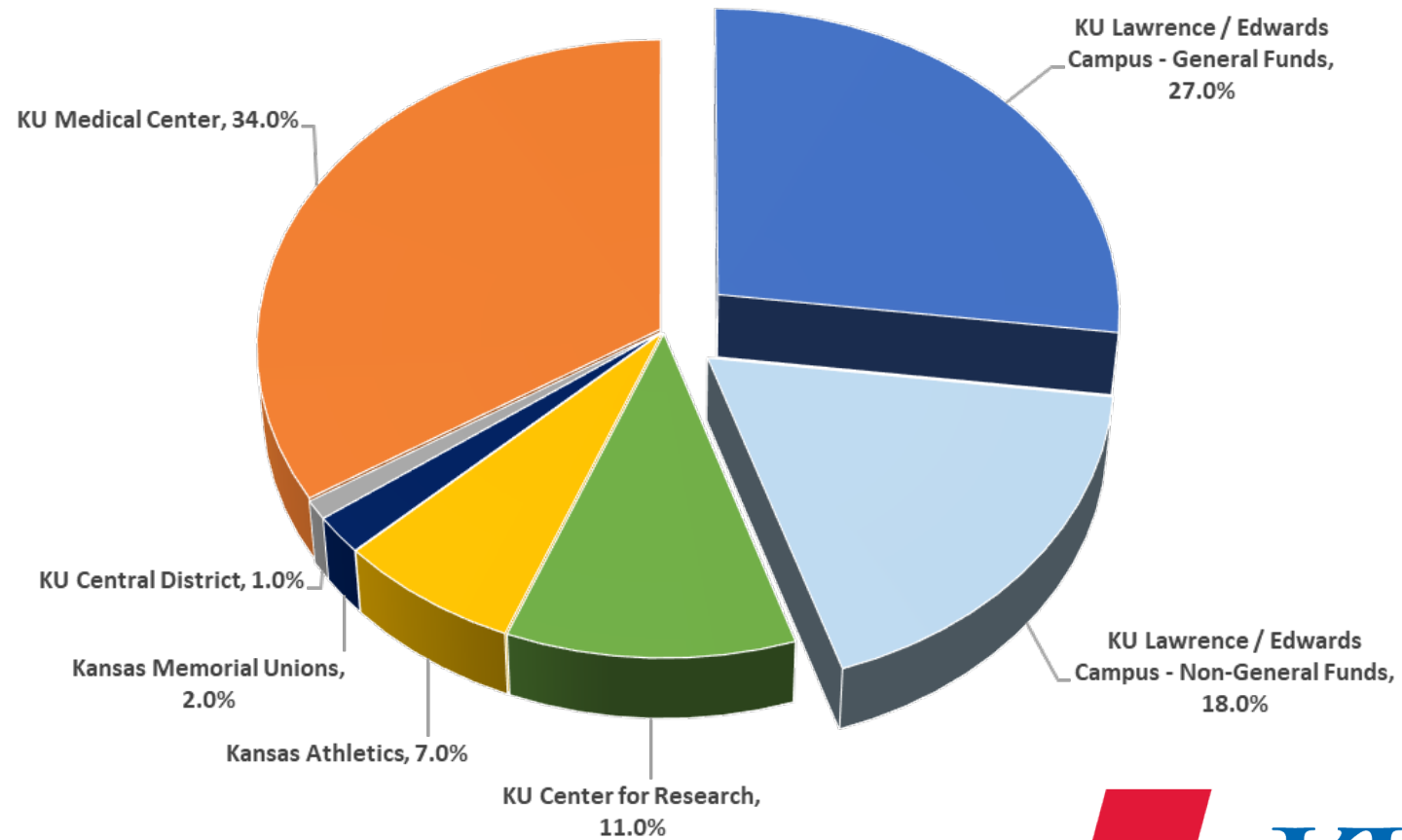
1. Student Housing
2. Watkins Health Services
3. KU Recreation Services
4. Parking & Transit

Kansas University Medical Center

Restricted or Mostly
Restricted for Use by
KUL (Self Supporting)

Picture of KU's Combined Financial Revenues

KU Revenues by Entity



FY 2020 Total Consolidated Revenues = \$1.4 Billion

Getting to the State Funding and Tuition Supported Part of KU

Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2020
(Natural Classification)

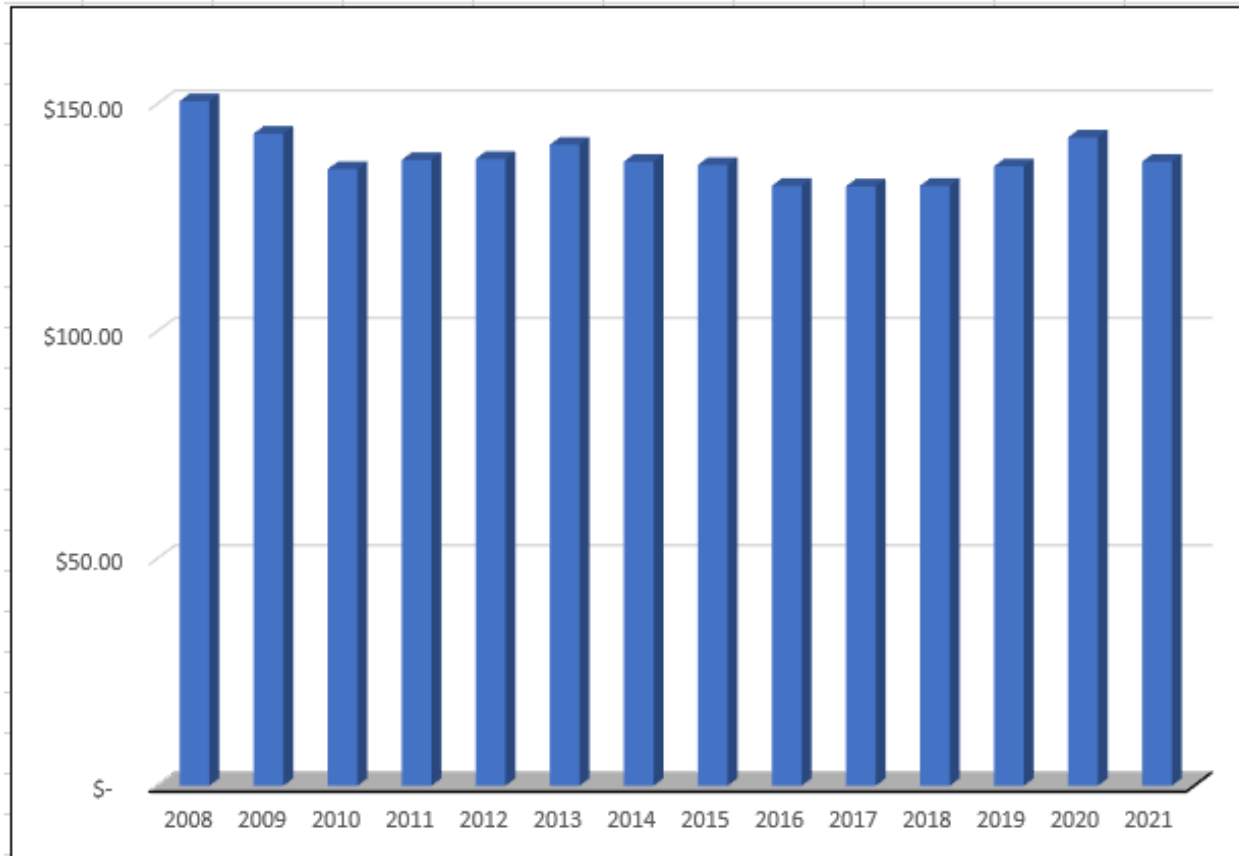
	FINANCIAL STATEMENT							
	CONSOLIDATED TOTAL	KU MEDICAL CENTER	KU CENTER FOR RESEARCH	KANSAS ATHLETICS	KU MEMORIAL UNIONS	KU CAMPUS DEV CORP	CONSOLIDATION ADJUSTMENTS	LAWRENCE CAMPUS
OPERATING REVENUES								
Tuition and fees	334,729,751	53,808,040	-	-	-	-	(8,578,291)	289,500,002
State appropriations	258,178,051	115,535,783	-	-	-	-	-	142,642,268
Federal grants and contracts	184,043,584	76,209,476	105,714,983	-	-	-	(4,296,957)	6,416,082
State and local grants and contracts	38,457,391	1,884,915	18,065,136	-	-	-	(44,334)	18,551,674
Nongovernmental grants and contracts	73,641,128	59,373,457	13,668,769	-	-	-	(1,396,495)	1,995,397
Sales and services of educational departments	96,861,468	65,195,709	-	-	-	-	(4,810,410)	36,476,169
Sales and services of medical and administrative activities	62,942,861	62,942,861	-	-	-	-	-	-
Auxiliary enterprises:								
Housing	31,439,429	-	-	-	-	-	(867,781)	32,307,210
Athletics	100,759,963	-	-	101,040,433	-	-	(280,470)	-
Parking	17,338,967	8,719,855	-	-	-	-	(209,943)	8,829,055
Student unions	24,765,498	59,723	-	-	29,150,409	-	(4,444,634)	-
University health services	9,763,131	-	-	-	-	-	(809)	9,763,940
Other auxiliary enterprises	1,896,696	257,820	-	-	-	-	(120,642)	1,759,518
Other operating revenues	9,996,239	3,276,700	16,451,532	-	-	14,249,120	(24,955,999)	974,886
Local appropriations	12,311,350	6,155,675	-	-	-	-	-	6,155,675
Gifts	65,327,100	36,826,948	-	-	-	-	(386,638)	28,886,790
Investment income (loss)	6,834,587	4,742,458	239,822	(188,526)	41,454	183,191	14,479	1,801,709
Nonoperating Federal grants and contracts	30,063,486	1,185,890	-	-	-	-	-	28,877,596
Other nonoperating revenues	3,769,022	609,952	2,842,126	-	-	-	(941,703)	1,258,647
Total revenues	1,363,119,702	496,785,262	156,982,368	100,851,907	29,191,863	14,432,311	(51,320,627)	616,196,618
OPERATING EXPENSES								
Compensation & Benefits	(897,414,165)	(347,930,386)	(81,820,529)	(40,562,214)	(13,151,184)	-	18	(413,949,870)
Scholarships and fellowships	(26,138,916)	(1,990,917)	(5,856,939)	-	-	-	-	(18,291,060)
Utilities	(26,753,111)	(7,546,691)	(552,608)	(573,794)	(1,111,491)	-	-	(16,968,527)
Supplies & Other Services	(304,750,329)	(106,007,336)	(49,962,349)	(56,636,481)	(20,275,838)	(97,896)	31,764,513	(103,534,942)
Depreciation	(74,398,078)	2,372,729	(3,989,698)	(9,869,871)	(2,049,530)	-	8,999,579	(69,861,287)
Interest expense	(27,991,316)	(4,684,670)	(880,671)	(1,483,096)	(224,929)	(13,160,556)	14,218,469	(21,775,863)
Other nonoperating expenses	(2,057,727)	(98,159)	(716,415)	-	2,900	-	(184,004)	(1,062,049)
Total expenses	(1,359,503,642)	(465,885,430)	(143,779,209)	(109,125,456)	(36,810,072)	(13,258,452)	54,798,575	(645,443,598)
Income (loss)	3,616,060	30,899,832	13,203,159	(8,273,549)	(7,618,209)	1,173,859	3,477,948	(29,246,980)
CAPITAL TRANSACTIONS								
Capital appropriations	32,135,852	3,948,117	-	-	-	-	-	28,187,735
Capital grants and gifts (expense)	12,795,434	801,547	2,262,259	5,678,724	-	-	(4,271,059)	8,323,963
Transfers (to)from University	-	-	(664,206)	-	(293,056)	-	957,262	-
Additions to permanent endowments	2,184	-	-	-	-	-	-	2,184
Total capital transactions	44,933,470	4,749,664	1,598,053	5,678,724	(293,056)	-	(3,313,797)	36,513,882
Total Increase (decrease)	48,549,530	35,649,496	14,801,212	(2,594,825)	(7,911,265)	1,173,859	164,151	7,266,902

How Did We Get Here? Role of Revenue Growth

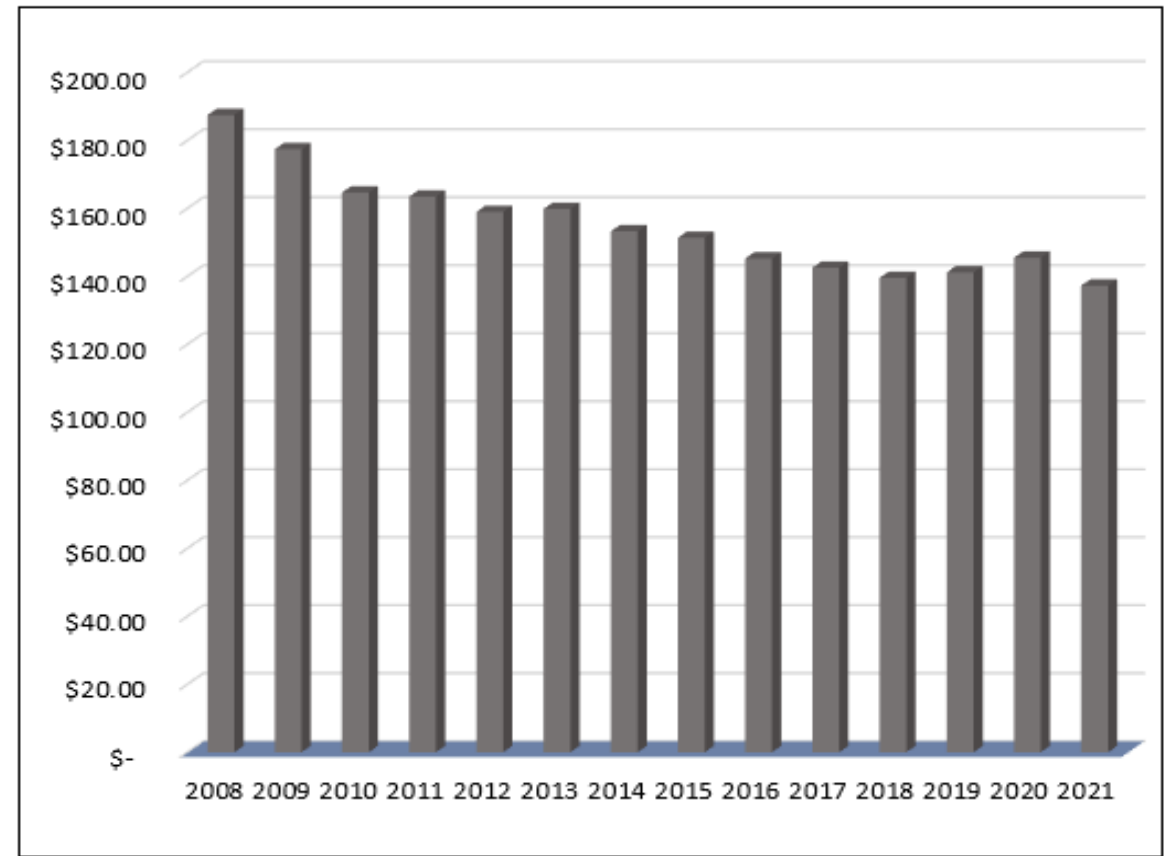
What is Role of Revenue Growth in Any Structural Deficit

State General Fund (SGF) Support, 2008 - 2021

SGF Support Unadjusted (in millions)

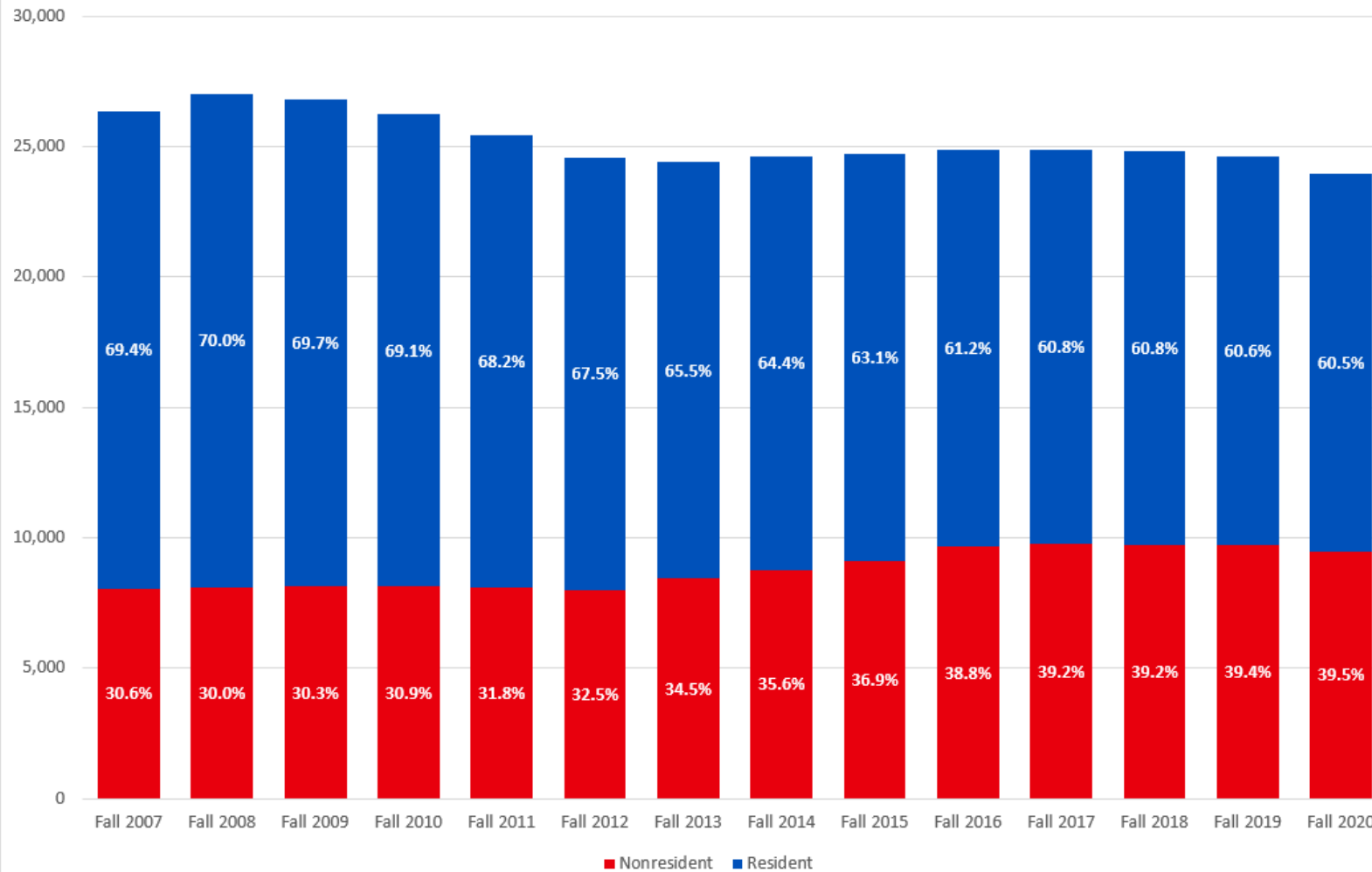


SGF Support Adjusted for CPI in FY 2021 dollars (in millions)



State Funding has been Declining in Real (inflation adjusted) Dollars since the "Great Recession"

KU Lawrence / Edwards Student Headcount

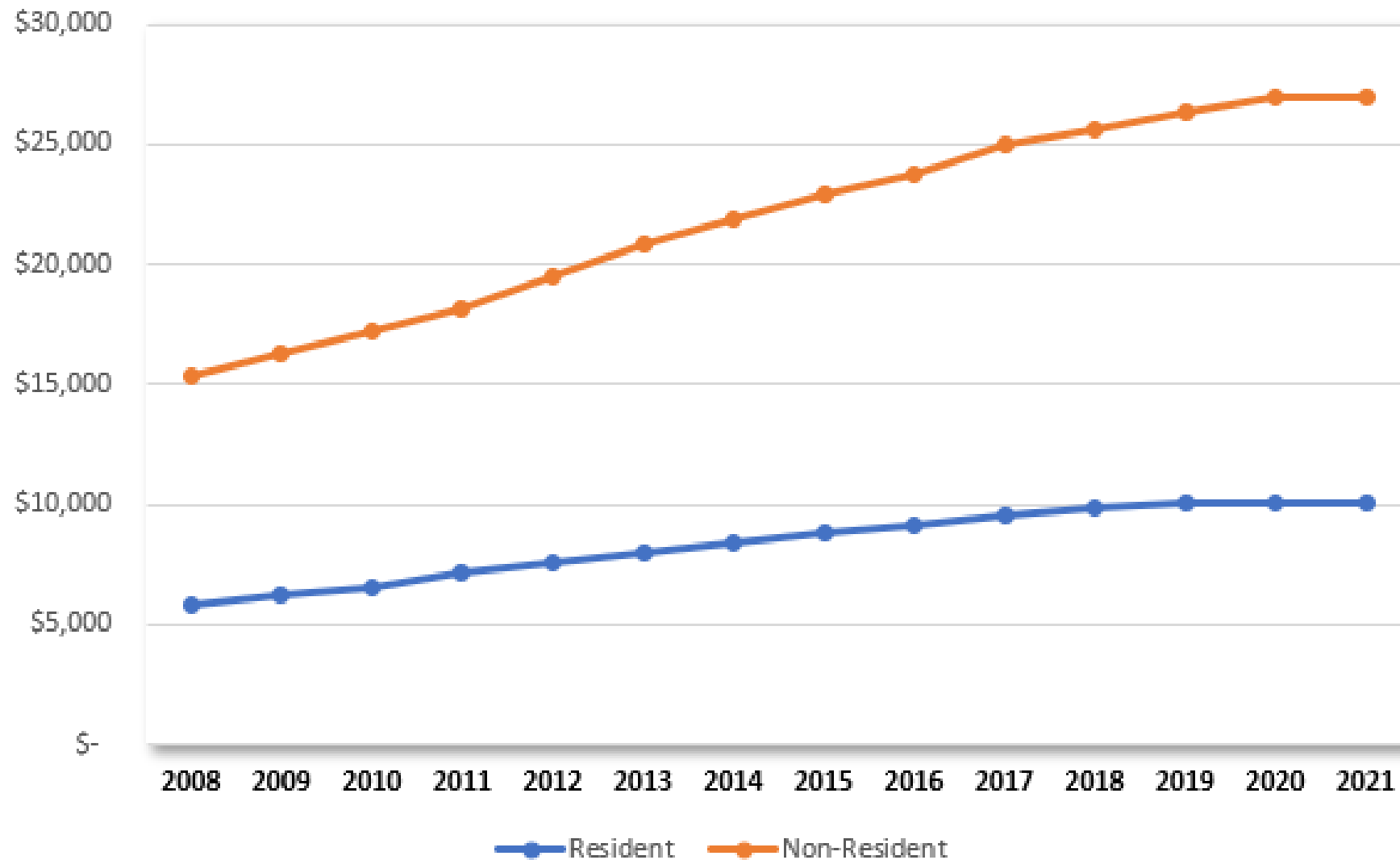


Student Headcount has remained relatively flat from 2012 through 2019

Headcount declined 2.9% from Fall 2019 to Fall 2020

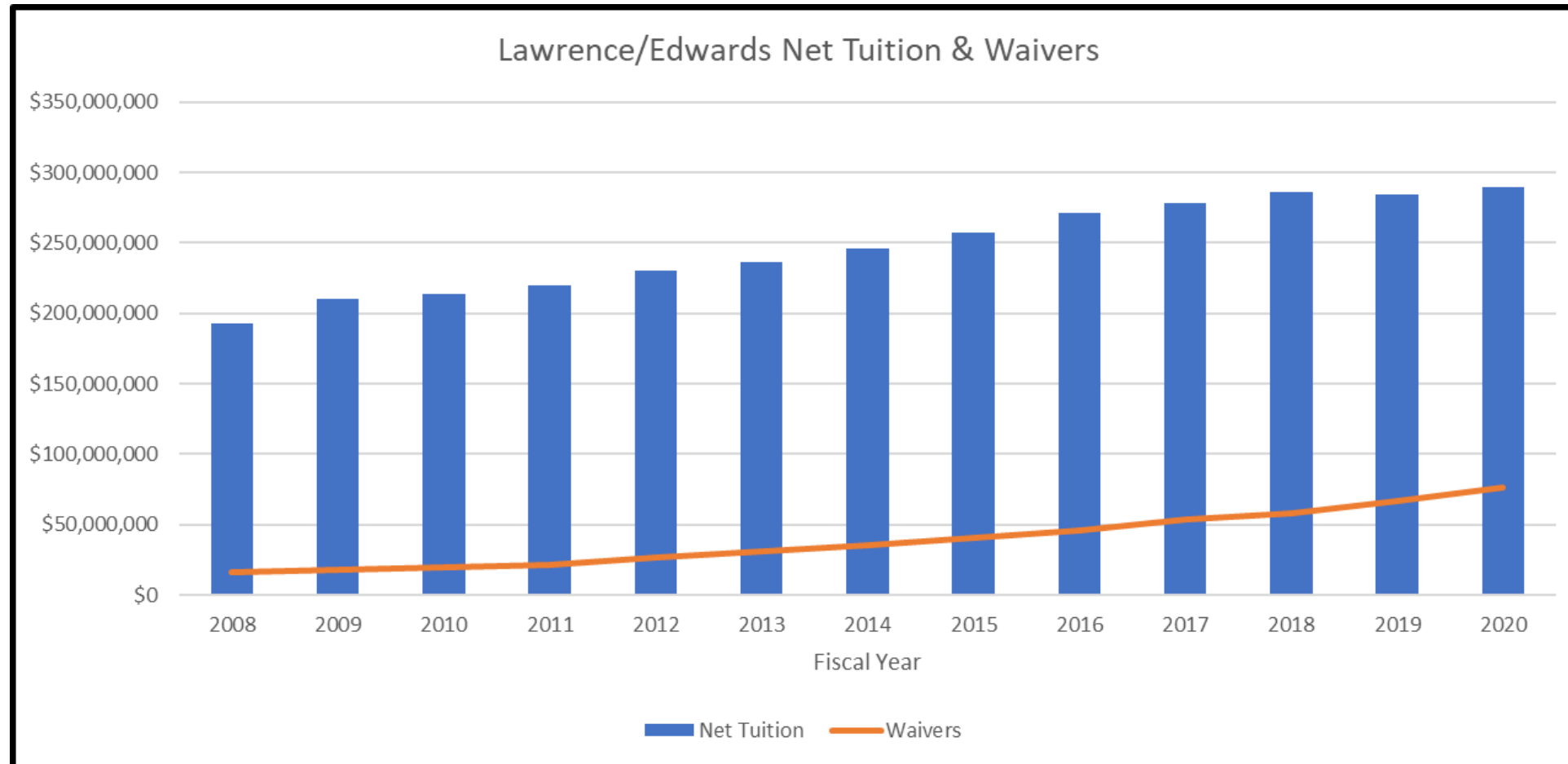
Non-resident student growth has compensated for decline in resident students

KU Lawrence / Edwards Undergraduate Tuition



- **Annual tuition assumes 30 credit hours per year**
- **Tuition does not include mandatory campus fees or School specific course fees**

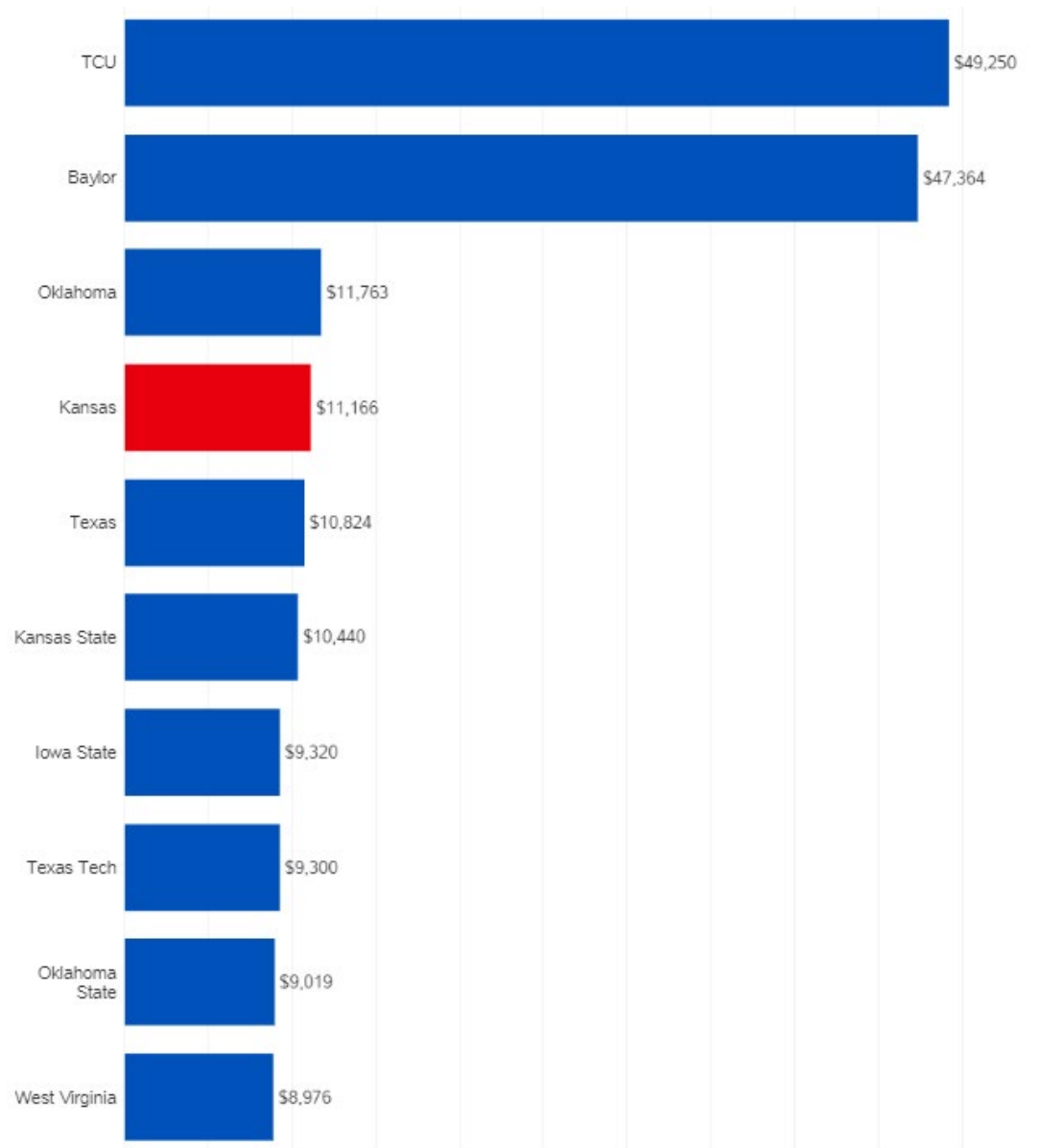
KU Lawrence / Tuition Revenue Growth and Waivers



Waivers:

- Midwest Student Exchange program expanded to all KU majors in Fall 2016
- KU Excellence program introduced in Fall 2018 and expanded out of state waivers

Undergraduate Tuition & Fees comparison – Big XII



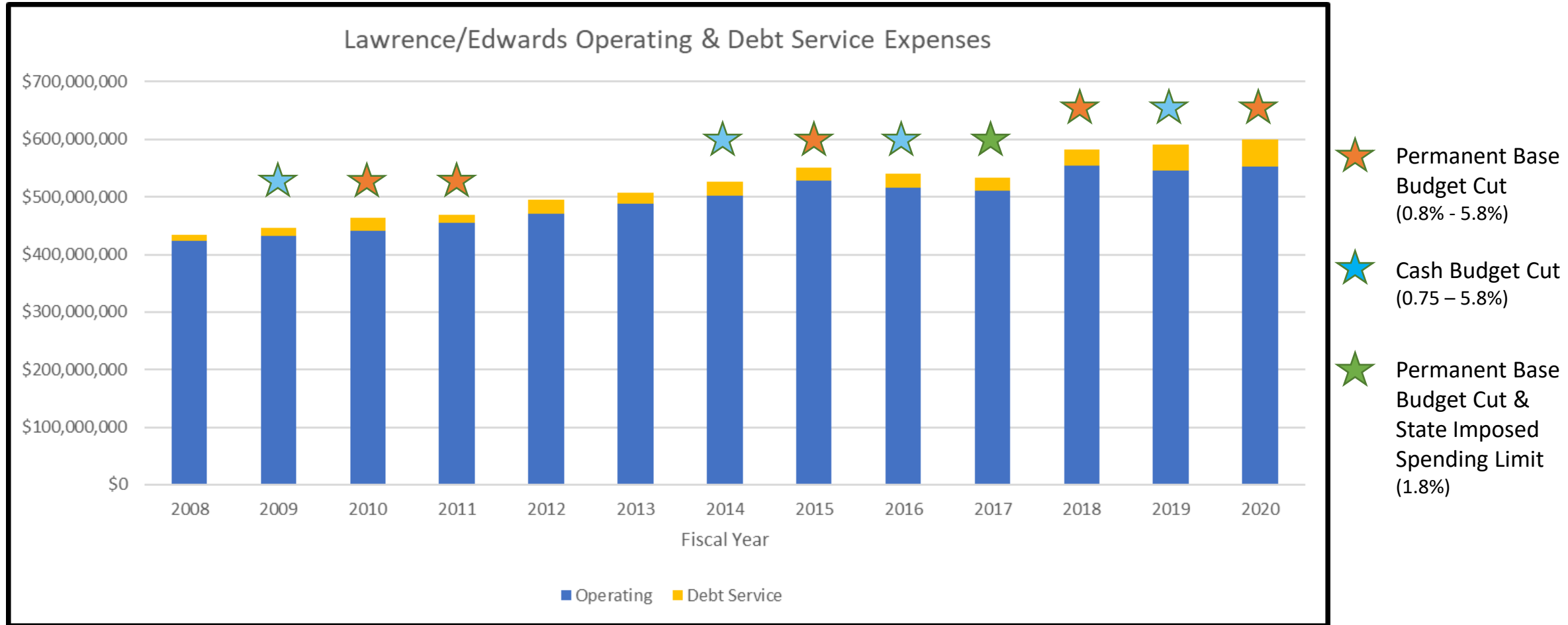
KU tuition and fees second highest among Big XII publics and fourth highest overall

Recent freezing of tuition Increases have made KU more competitive

How Did We Get Here? Role of Expenses

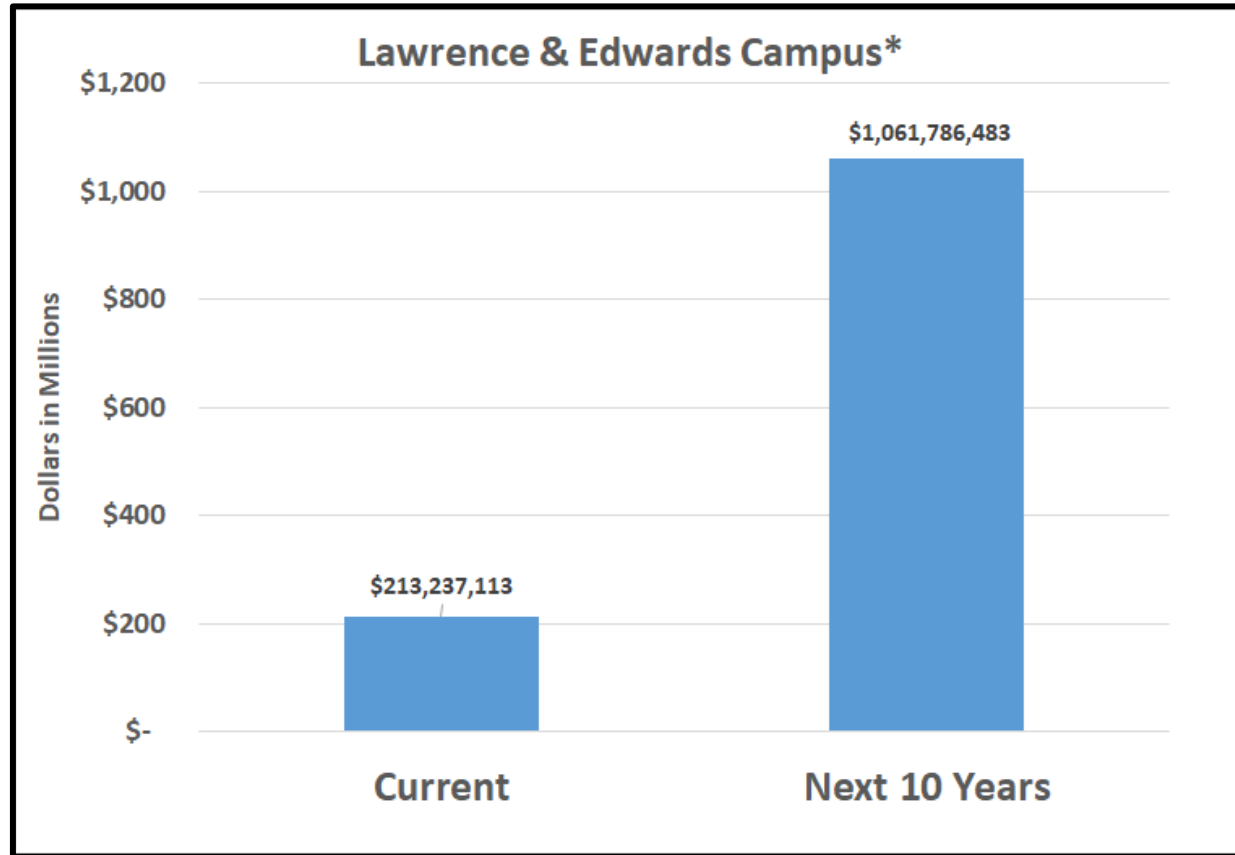
What is Role of Expense Growth in the Structural Deficit ?

How Did We Get Here? Role of Expenses



Operating Expenses do not include depreciation

Deferred Maintenance Building & Infrastructure



*Does not include Lawrence Campus Affiliates or Auxiliaries (Athletics, KUCR, KUEA, Unions, Housing, Parking, Rec Services, Watkins).

Campus water line break



Pipe Break at Max Kade Center



Financial Analysis: Setting the Base

From the Annual Financial Report (published by KU and audited by State) you pull out KUL to start (blue slice on earlier chart, page 6).

From that you isolate any expenses that remain to be covered by Tuition and State funding.

The details are in the “supplemental information” section following the presentation.

Key Assumptions of Financial Forecast - FY22

Auxiliaries and Affiliates carry themselves with exception of Federal HEERF Money for Union, Housing and Watkins to meet expenses while they recover

FOR FY 2022

- State Funding is Level Currently Submitted to the Governor by the State Legislature
- Enrollment Stays Flat Relative to 2021
- No Increase in Tuition Rates
- Recent Debt Service Savings from Refinancing Reflected
- Deferred Maintenance Funding Increased by \$2.5 million over 2021
- KUEA Funding Provides Start-up for Strategic Growth Initiatives
- Takes advantage of better-than-expected revenue and lower expenses in 2021 to carryover \$20 million (*\$20 million is maximum amount before cash levels threaten credit rating*)
- Uses the Federal Higher Education Emergency Relief Funding (HEERF) to support KUL, Union, Housing and Watkins all impacted significantly by Covid-19 (\$24 million)
- Reduces spending as necessary to carry through to FY 2023 where no "one time" funding is available.

Key Assumptions of Financial Forecast, FY23 - FY24

Assumption	FY23	FY24
State General Funding	Flat	Flat
Tuition Growth	4% increase in growth &/or rate	4% increase in growth &/or rate
Employee Pay Raises	2.0% increase	2.0% increase
Operating Costs	2.5% increase	2.5% increase
Strategic Growth Investments	\$2,500,000	\$5,000,000
Deferred Maintenance Investment	\$5,000,000	\$10,000,000
Auxiliary & Affiliate Financial Support	None needed	None needed

- Assumes Deficits in FY 2024 Addressed by Future Efficiencies, Growth Initiatives, or Future Budget Reductions, or Combination of the Three

The Forecast: What is the Structural Deficit?

No cuts beyond the FY 2021 Voluntary Separation Incentive Program (VSIP)

	FY 2020 ACTUALS	FY 2021 ACTUALS Estimated	FY 2022 Budget	FY 2023 Forecast	FY 2024 Forecast
Sources:					
General Use - State Appropriations	\$134,657,428	\$137,219,212	\$135,531,729	\$135,531,729	\$135,531,729
General Use - Lawrence and Edwards Tuition	\$282,504,917	\$260,432,000	\$252,932,000	\$263,049,280	\$273,571,251
General Use - Miscellaneous	\$18,291,246	\$19,343,903	\$17,612,497	\$17,880,063	\$18,111,692
Total Sources:	\$435,453,592	\$416,995,115	\$406,076,226	\$416,461,072	\$427,214,672
Uses:					
Salaries	\$253,127,273	\$241,995,333	\$259,041,625	\$261,004,063	\$267,124,123
Fringe Benefits	\$66,119,758	\$62,998,896	\$69,403,995	\$70,253,653	\$72,701,922
Operating Expenditures	\$86,890,578	\$80,831,050	\$96,135,574	\$99,456,963	\$102,793,387
Debt Service	\$22,782,896	\$23,059,904	\$21,468,641	\$20,805,408	\$20,860,175
Deferred Maintenance	\$0	\$0	\$2,500,000	\$5,000,000	\$10,000,000
Strategic Investments			\$0	\$2,500,000	\$5,000,000
Total Uses:	\$428,920,505	\$408,885,184	\$448,549,835	\$459,020,087	\$478,479,607
Surplus (Shortfall)	\$6,533,087	\$8,109,931	(\$42,473,609)	(\$42,559,015)	(\$51,264,935)
Address with Carryforward			\$20,000,000	\$545,943	(\$42,013,072)
Address with one-time Federal COVID monies			\$22,245,580		
Funding for COVID impact for Union, Housing, Watkins			(\$4,700,000)		
Address Shortfall with VSIP only			\$5,473,972		
Carry Forward			\$545,943	(\$42,013,072)	(\$93,278,007)

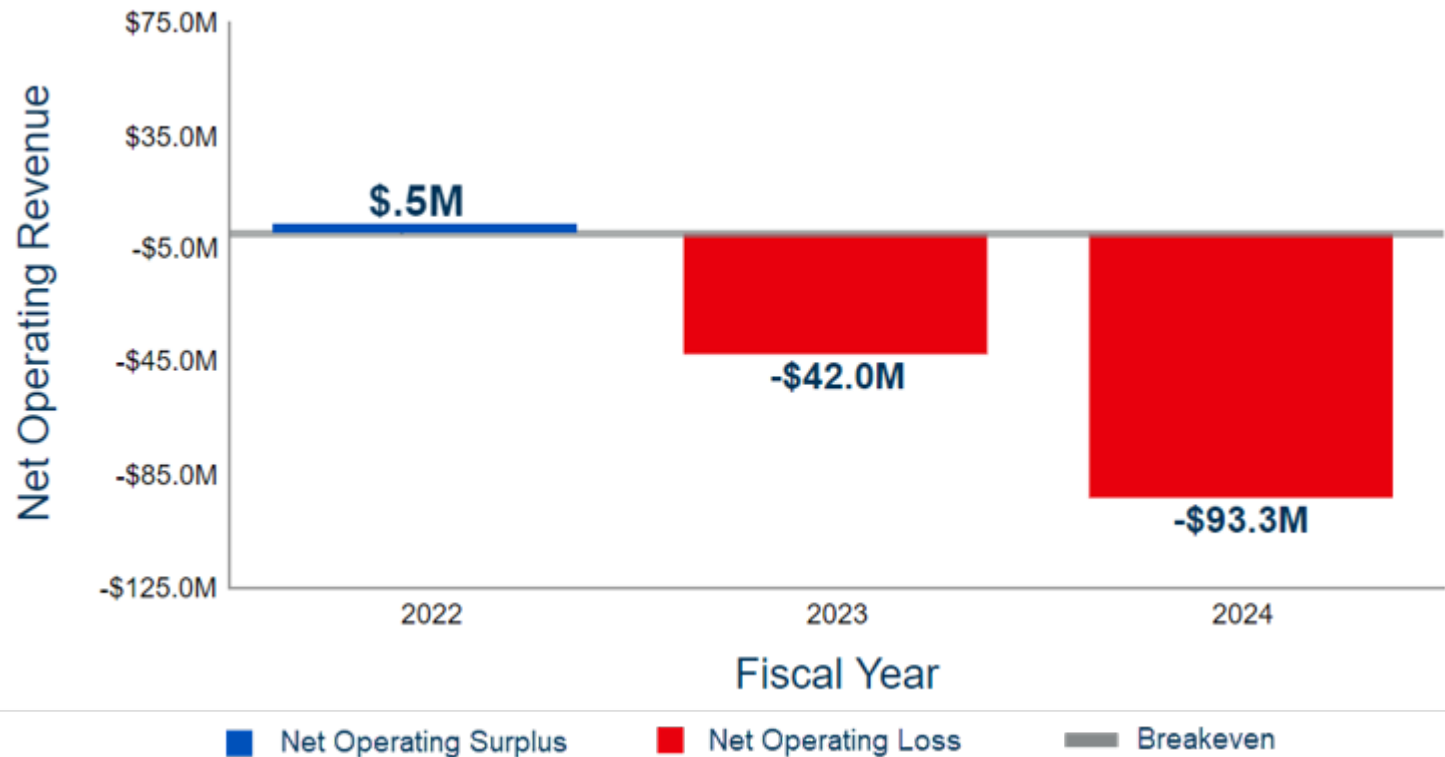
The Forecast: What is the Structural Deficit?

Apply additional cuts to balance through FY 2023

	FY 2020 ACTUALS	FY 2021 ACTUALS Estimated	FY 2022 Budget	FY 2023 Forecast	FY 2024 Forecast
Sources:					
General Use - State Appropriations	\$134,657,428	\$137,219,212	\$135,531,729	\$135,531,729	\$135,531,729
General Use - Lawrence and Edwards Tuition	\$282,504,917	\$260,432,000	\$252,932,000	\$263,049,280	\$273,571,251
General Use - Miscellaneous	\$18,291,246	\$19,343,903	\$17,612,497	\$17,880,063	\$18,111,692
Total Sources:	\$435,453,592	\$416,995,115	\$406,076,226	\$416,461,072	\$427,214,672
Uses:					
Salaries	\$253,127,273	\$241,995,333	\$259,041,625	\$245,756,383	\$251,571,493
Fringe Benefits	\$66,119,758	\$62,998,896	\$69,403,995	\$66,113,162	\$68,422,559
Operating Expenditures	\$86,890,578	\$80,831,050	\$96,135,574	\$96,867,050	\$100,138,726
Debt Service	\$22,782,896	\$23,059,904	\$21,468,641	\$20,805,408	\$20,860,175
Deferred Maintenance	\$0	\$0	\$2,500,000	\$5,000,000	\$10,000,000
Strategic Investments			\$0	\$2,500,000	\$5,000,000
Total Uses:	\$428,920,505	\$408,885,184	\$448,549,835	\$437,042,003	\$455,992,953
Surplus (Shortfall)	\$6,533,087	\$8,109,931	(\$42,473,609)	(\$20,580,931)	(\$28,778,281)
Address with Carryforward			\$20,000,000	\$21,993,273	\$1,412,342
Address with one-time Federal COVID monies			\$22,245,580		
Funding for COVID impact for Union, Housing, Watkins			(\$4,700,000)		
Address Shortfall Permanent Reductions			\$26,921,302		
Carry Forward			\$21,993,273	\$1,412,342	(\$27,365,939)

The Forecast: What is the Structural Deficit?

Balanced solely due to
one-time funding

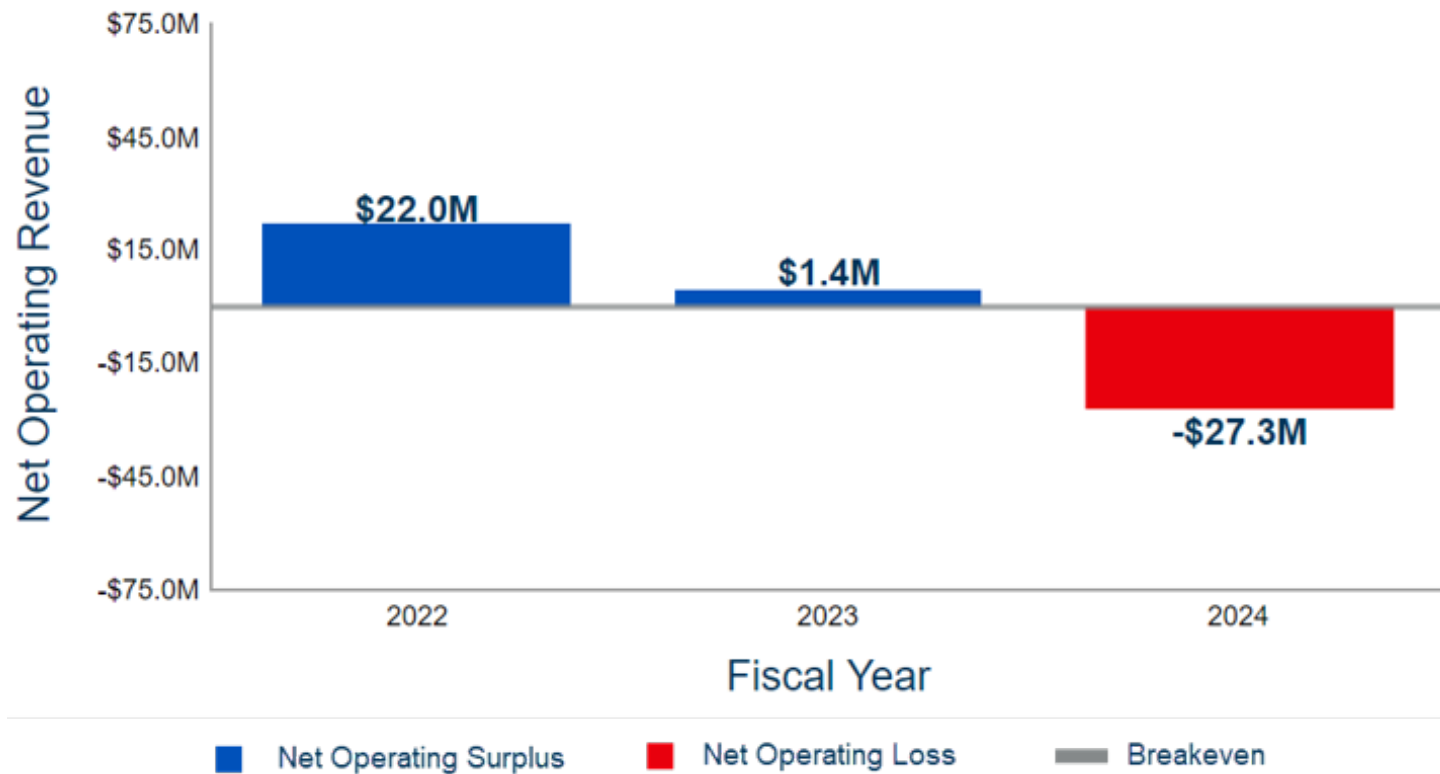


The Do Nothing Scenario

- Only reductions are \$5.5 million for permanent VSIP
- 4% Tuition Revenue Growth in Academic Years 2023 & 2024
- 2% Merit in Fiscal Years 2023 & 2024
- 2.5% Increase in Other Operating Expense (OOE) Fiscal Years 2023 & 2024
- Funding for strategic growth initiatives and minimal increased funding for deferred maintenance

The Forecast: What is the Structural Deficit?

This solution results in smallest responsible budget reductions in FY 2022 and provides time to find additional solutions before FY 2024



Expense Reductions in FY 2022 to Balance 2023 where no "One-time" funding is available Future Actions Required to Balance FY 2024 (RECOMMEDATION)

- Reduce Expenses \$26.9 million in 2022 (includes VSIP)
- 4% Tuition Revenue Growth in Academic Years 2023 & 2024
- 2% Merit in Fiscal Years 2023 & 2024
- 2.5% Increase in Other Operating Expense (OOE) in Fiscal Years 2023 & 2024
- Funding for strategic growth initiatives and minimal increased funding for deferred maintenance

What Could Make it Better or Worse?

What Could Make it Better?

- ✓ **State Begins to Increase Annual Funding**
- ✓ **State Shares Federal Covid Funding that Can be Used to Buy More Time to Implement Efficiencies and Growth Initiatives**
- ✓ **Better than Expected Growth in Revenues that Offset the Need for Tuition and State Funding**
- ✓ **Expenses are Below Budgeted Levels Providing Carryover Funds in Future Years**

What Could Make It Worse?

- ✓ **State Funding Declines Similar to Recent Years**
- ✓ **Enrollment Drops Rather than Staying Flat or Growing**
- ✓ **Unplanned Expenses Occur or Expenses not Effectively Managed**
- ✓ **Inflation Begins to Increase Beyond Forecast Level**
- ✓ **Implementation of KBOR Deferred Maintenance Policy**

WHERE DO WE GO FROM HERE? NEXT STEPS

NEXT STEPS:

- ✓ **Lawrence/Edwards Collectively Adjust Budgets to Reduce Expenses by \$26.9 million for FY 2022**
- ✓ **Support Jayhawk Rising Strategic Plan by Developing a Five-year Financial Plan and Ensuring Strategies to Address Structural Deficits**
- ✓ **Begin Collecting Ideas from Everyone On How We Can Be more Efficient and Grow to Minimize FY 2024 Impact**
- ✓ **Develop Strategic Growth and Efficiency Plans for Implementation**
- ✓ **Partner with Auxiliaries and Affiliates on Similar Five-year Plans**
- ✓ **Develop a Long-range Capital and Financial Plan to Address Deferred Maintenance**
- ✓ **Educate Citizens and Business Community on Impact of the Lack of Growth in State Funding**

FREQUENTLY ASKED QUESTIONS

- ✓ **Can KU Endowment or KU Medical Center Resources be Used to Solve the Budget Challenge?**
- ✓ **What is the Financial Impact of the KU Central District?**
- ✓ **Why are KU Cash Reserves and Credit Rating Important?**
- ✓ **Why has KU not Previously Budgeted over a Longer Period of Time?**
- ✓ **Why is KU not Implementing Across the Board Budget Reductions?**
- ✓ **Why did the Fiscal Year 2019 Budget Cut of \$20 million not Solve KU's Financial Issues?**

Questions And Answers