Budget Talking Points

How large is the University’s budget?
MU’s budget is approximately $2.3 billion. Of that, $1.28 billion is auxiliary operations, or departments that generate their own revenue. Examples of these operations include MU Health Care, Residential Life, Athletics, Campus Dining Services, Veterinary Medicine Hospital, Parking and KOMU.

MU’s operating fund revenue is funded from two primary sources: tuition and state appropriations.

What cuts are the university making?
Each division and academic unit will cut 5 percent from its general operating budget, which will result in $24.6 million, leaving a $6.8 million budget shortfall. These cuts range from reduction in staff to decreases in operational costs.

We have implemented a hiring freeze for all units and are not refilling open positions unless critical to the mission. Finally, we will not have an annual merit increase program this year.

How were decisions made regarding certain jobs or cuts in specific areas?
Because each unit has different needs and priorities, they were given discretion concerning where cuts to their budgets would be made. Additionally, some units have more flexibility than others due to open positions or the ability to produce their own revenue sources.

Are some units not getting cut?
The 5 percent cut was carried out throughout the university. In some cases, such as with MUPD and Environmental Health and Safety, budgets were not reduced due to the critical nature of the work. However, this means that other areas of the Operations budget absorbed a larger cut to average 5 percent overall.

Didn’t the 4 percent increase from the state help with this budget gap?
Yes, we are extremely grateful and pleased that the state legislature and the governor provided us with additional funds for the coming year and decided to not cut the MU budget. This additional money provides us with an increase of approximately $9 million compared to last year’s allocation. However, with the large enrollment decline that we are facing, we still have to cover a $31 million budget shortfall.

How can the university still have construction projects on campus if they are facing this massive shortfall? Shouldn’t the construction money go toward the shortfall?
Large construction projects such as the Lafferre Hall renovation project are typically funded

WHAT IS THE UNIVERSITY’S CURRENT BUDGET GAP?
Currently, based on a projected decline in total enrollment of approximately 2,630 students and the addition of new financial commitments to the University’s overall budget, which include increases to graduate students’ minimum stipends and funding for the new Division of Inclusion, Diversity and Equity, the University of Missouri is facing a total budget shortfall of approximately $31.4 million. The breakdown is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Enrollment decline</td>
<td>($36.3 million)</td>
</tr>
<tr>
<td>Tuition rate</td>
<td>$5 million</td>
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<tr>
<td>State appropriation</td>
<td>$9 million</td>
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<tr>
<td>Change in revenue</td>
<td>($22.4 million)</td>
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<tr>
<td>Change in expenditures</td>
<td>($9 million)</td>
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<tr>
<td>Funding shortfall</td>
<td>($31.4 million)</td>
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After a long period of enrollment growth, Mizzou is at a turning point for determining how it will grow in stature and prestige.

Mizzou’s decline in enrollment affords us the opportunity to think strategically about right-sizing the university to enable success in areas that are mission-critical.

Aligning appropriate resources to our core mission areas will help us thrive as an AAU institution.
through bonds that have been issued, donor money that is targeted specifically for those projects and/or state money. Since this money has already been acquired or is only targeted specifically for those projects, we are obligated to finish the construction. Additionally, these construction projects will help Mizzou continue to provide a world-class education to our students.

For example, with new facilities in the Engineering complex, our students will have better access to state-of-the-art equipment and better resources to use when in the classroom. This will enhance the educational opportunities they have when they come to Mizzou. We expect this to translate into increasing the workforce for Missouri businesses as well as generating new companies, which in turn, will stimulate Missouri's economy. It also will help in attracting new Engineering students, which will help us close the budget gap in the future.

Do these budget problems mean that the decision on retiree health insurance is final?
The retiree health insurance issue is separate from our current budget challenges. Without a fix to the retiree health insurance program, the university would have incurred millions of dollars in additional liabilities, creating budget strain for years to come. That decision had to be made regardless of the budget shortfall we are facing next year.

Why can't you take money from auxiliary operations or Athletics and use it to cover the shortfall?
Auxiliary operations don’t receive funds from tuition or state tax dollars, and in fact pay an overhead rate to cover general operating expenses of the university. They are self-supported; therefore, with fewer students, they are less able to generate sufficient revenue to support themselves, let alone contribute more to departmental operating budgets.

Athletics contributes to the university in a variety of ways and will provide campus with some funds, which is helpful. Simultaneously, Athletics is working to pay down debt incurred during the move to the SEC and for certain building projects necessary to compete in the league.

Residential Life is another example of an auxiliary operation that actively manages its operation to operate within their means. As a result, they are making adjustments to the number of residence halls that are open for the coming fall.

Can endowment funds be tapped to cover the funding gap?
Endowments are large gifts given to the university typically with a specific purpose stated, such as scholarships, professorships, etc. The university uses the interest off the endowment to fund the donor’s stated intent. Not enough money exists in unrestricted funds to help cover the shortfall.

Currently, we are in the middle of a $1.3 billion campaign and have raised more than $715 million. We are extremely grateful to all of our donors who are helping provide for the future of our university. These funds will provide for Mizzou’s future, but are not intended to be a replacement for base operating funds.

Can we raise tuition?
The university’s ability to raise resident undergraduate tuition is limited to the Consumer Price Index — which stands at .7 percent — per Senate Bill 389. In addition, all public higher education institutions agreed with Gov. Nixon to hold resident undergraduate tuition flat in return for an increase in state appropriations. The university is expected to raise tuition modestly for other students pending board of curators approval.

The university has suffered significant budget gaps before. How is this different?
FY17 will be one of the largest budget gaps in recent university history. During times of past budget stress, the university largely relied on revenue from tuition that increased as our student body increased. As enrollment is the largest driver of the gap this year, other strategies to close the gap must be used. Further, fixed costs of the university have continued to increase — including health insurance and other benefits for our employees, electricity, liability insurance, etc…

 Couldn't highly paid individuals take pay cuts to address the budget issue?
In the vast majority of cases, our highest paid individuals at the university are faculty and our physicians. In this competitive market environment, cutting these individuals’ pay makes the university vulnerable to losing its best and brightest faculty/physicians. Furthermore, even if we did cut salaries in the current climate, it is not a long term strategy to improve the overall health of the University.

How is the university managing its budget?
The university continues to manage its budget conservatively, proactively and effectively. While there is an overall budget decrease of the base recurring budget, we have lived within our resources each year resulting in the ability to use some one time funds to transition to a new smaller ongoing budget. This is why unlike several other universities, we have not needed to implement furloughs to garner one-time savings to cover our immediate expenses. To responsibly plan for the future we have to reduce the size of our ongoing expenditures to ensure that we do not default on our obligations in the future.
What has the university done to address enrollment loss?

The enrollment decline is due to three factors:

1. Demographic declines in the Midwest
2. More competition from other colleges and universities, specifically other flagship universities
3. The events of last fall.

Our recruiting team has been hard at work preparing a strategy for the upcoming recruiting season. This strategy includes hiring additional permanent recruiters to be stationed in Washington, D.C., Southern California, Dallas, Chicago, Atlanta and Minneapolis. Additionally, we will be inviting more school counselors to visit our campus, and various administrators, current MU students and faculty will be visiting high schools to talk about Mizzou and what happened here since November – specifically, why this is still a great, safe place to get a world-class education both in and out of the classroom.

Our biggest recruiting factor continues to be campus visits. We plan to continue to encourage prospective students and their families to visit our campus, talk with our professors and talk with other students on campus. In addition, we are:

• Reaching out to all admitted but not enrolled students and their parents through phone, Skype, videos and text
• Redesigning all our admissions materials to ensure they meet the expectations and needs of prospective students, including a new web site
• Piloting of paid social media advertising to better reach prospective students
• Hosting small receptions and events in high schools during which current students will talk to high schools about why they chose and stayed at Mizzou.

Weren’t you prepared for drop in enrollment?

Yes, we had been preparing for a potential drop in enrollment due to lower high school graduates and increased competition from other universities. This demographic shift has borne out in other colleges as well. In fact, according to a US News and World Report survey of 265 research-oriented national universities that provided data, only 25 said they enrolled more than half of the students they accepted for fall 2014.

We will continue to educate prospective students and their families as we plan our recruiting strategies for Fall 2017 and beyond, stressing that Mizzou is a safe campus and that our mission of teaching, research, service and economic to the state, nation and world have and will continue unabated.

Why is now the right time to “right size?”

The university spends 80 percent of its general budget on salaries and benefits. Although we expected to deal with potentially lower enrollment, we maintained our commitment to faculty and staff as best we could rather than starting to downsize while we were still growing. Further, we had to continue to serve the students here, so making large cuts in preparation for smaller classes would have been detrimental to current students.

Given this coming year’s decline in enrollment, now is the time to begin thinking more about the Mizzou of the future, including how our institution will grow in stature and prestige, and how we can align resources to our critical mission areas.

Is the university’s reputation permanently tarnished from this fall’s events?

Unfortunately, there are many people who love Mizzou who are disappointed in us, and we admit we could have done a better job, especially in terms of communication. That said, the outstanding work of the university has never faltered. Students continue to win national awards and complete service projects. Faculty have received more than $50 million in research grants over the past six months, which allow us to continue our ground-breaking research that impacts the lives of all Missourians. And, researchers are continuing to bring their discoveries from the lab to the marketplace, encouraging new spin-off companies, which improve the economic climate of the state.

We continue to work very hard to educate prospective students about our campus and how we prepare our students for the global marketplace.