

USM's Financial Model

November 29, 2017

USM Board Retreat



Candidate Qualities of a Financial Model – A Strawman

Promotes organizational:

- Stability & resilience
- Operational flexibility & autonomy
- Capacity to expand & improve
- Capacity for innovation, creativity, & aspirations
- Readiness
- Reputation

USM Financial Model – Guiding Principles

- Relevant to distinct USM campus missions
- Complementary to the alignment of USM & State priorities
- Promotes organizational effectiveness & efficiency
- Structured to sustain & advance academic & research quality
- Responsive to the priorities of the Governance Legislation

USM Financial Model – Select Strategies

- Save to invest
- Make the most efficient facilities financing choices
- Utilize private sector investment where beneficial (PPPs)
- Maintain State funding
- Grow alternative revenue sources

USM Resources – *“The Model’s Moving Parts”*

- State funded operating budget & capital program
- USM funded capital program
- Tuition & fees
- Research funding
- Student enrollment & management
- Financial aid
- Fund balance
- Auxiliary revenues & operating margins
- Fundraising & endowment
- Faculty & staff
- Other revenues (e.g., licensing & royalty income)

Indices - funding guideline, tuition affordability & facility index

USM Expenditures – “*Rethinking the Spending Model*”

Moving toward –

- Reorganize spending to better understand true costing with a focus on E&E
- Place a greater emphasis on ROI
- Advance IT platforms (e.g., procurement, IT services)
- Activity Based Costing – **ABC**
- Use analytics in spending decisions (e.g., academic programming, enrollment management, operations)

Inside the Financial Model: Fund Balance, Spending, & Credit Ratings – A Discussion

Background

- Legislative Workgroup discussions & recommendations
- Fund balance management
- Institutional flexibility & autonomy
- Board of Regents fiduciary responsibilities
- Process for –
 - developing required changes to USM's debt management policy
 - creating new fund balance policy & procedures
- Concerns surrounding the USM Financial Model and fund balance management

Fund Balance Workgroup Recommendations

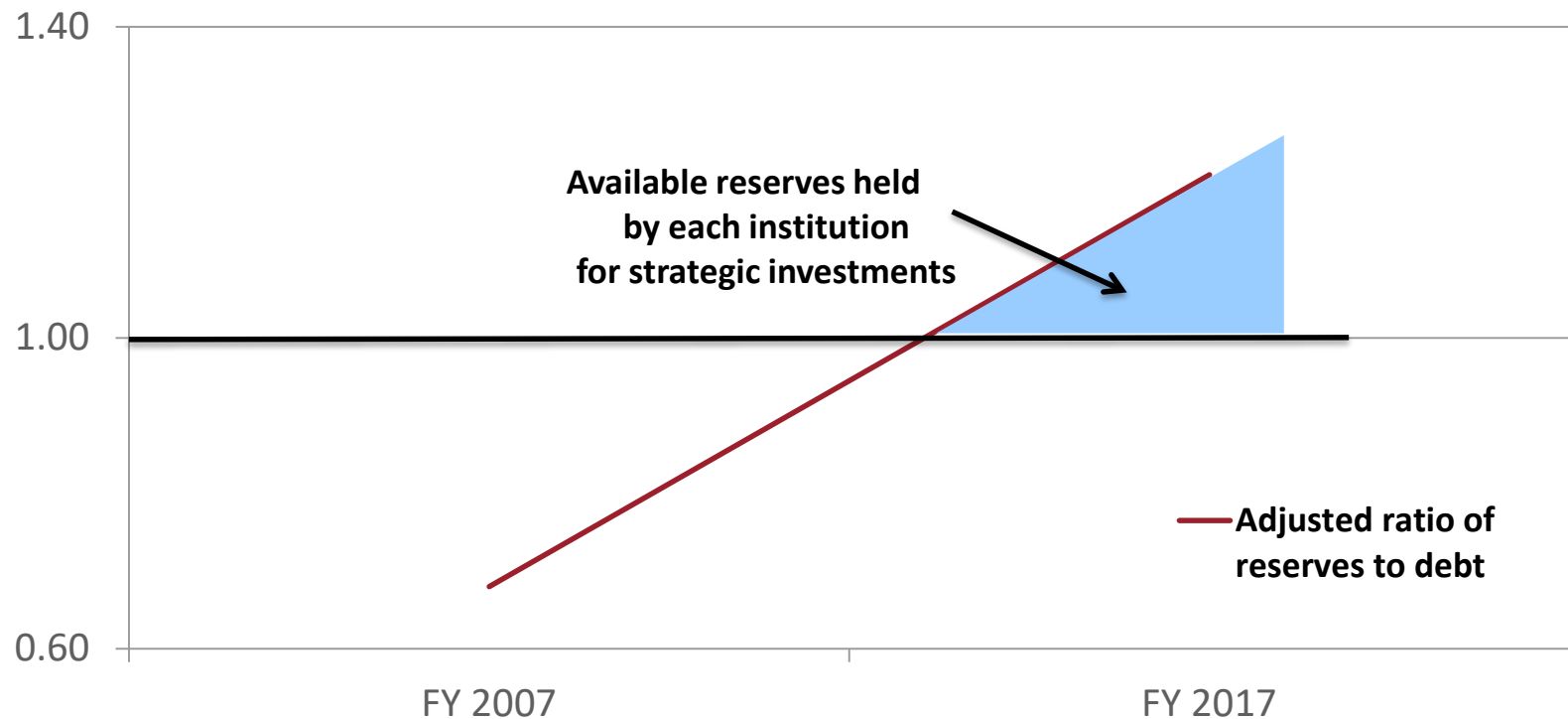
See Appendix 1

Select Fund Balance Results

- Avoid cuts to base state appropriations – \$240M
- Bridge funding of capital projects until donor pledges are collected – \$300M+
- Cash funding of state and auxiliary capital facilities – \$200M+
- Utilize Quasi-endowments ROI to fund FR & endowment building – \$100M
- Fund ventures – UMUC Ventures, UM Ventures, M-Fund, TDC – \$50M+
- Reduce debt service payments for new & refinanced debt (e.g., \$50M+ in refinancing savings)
- Keep pace with the annual increase in USM debt & debt capacity – \$35M to \$40M per year

The USM Financial Model

Adjusted ratio of reserves to debt USM - last 10 years



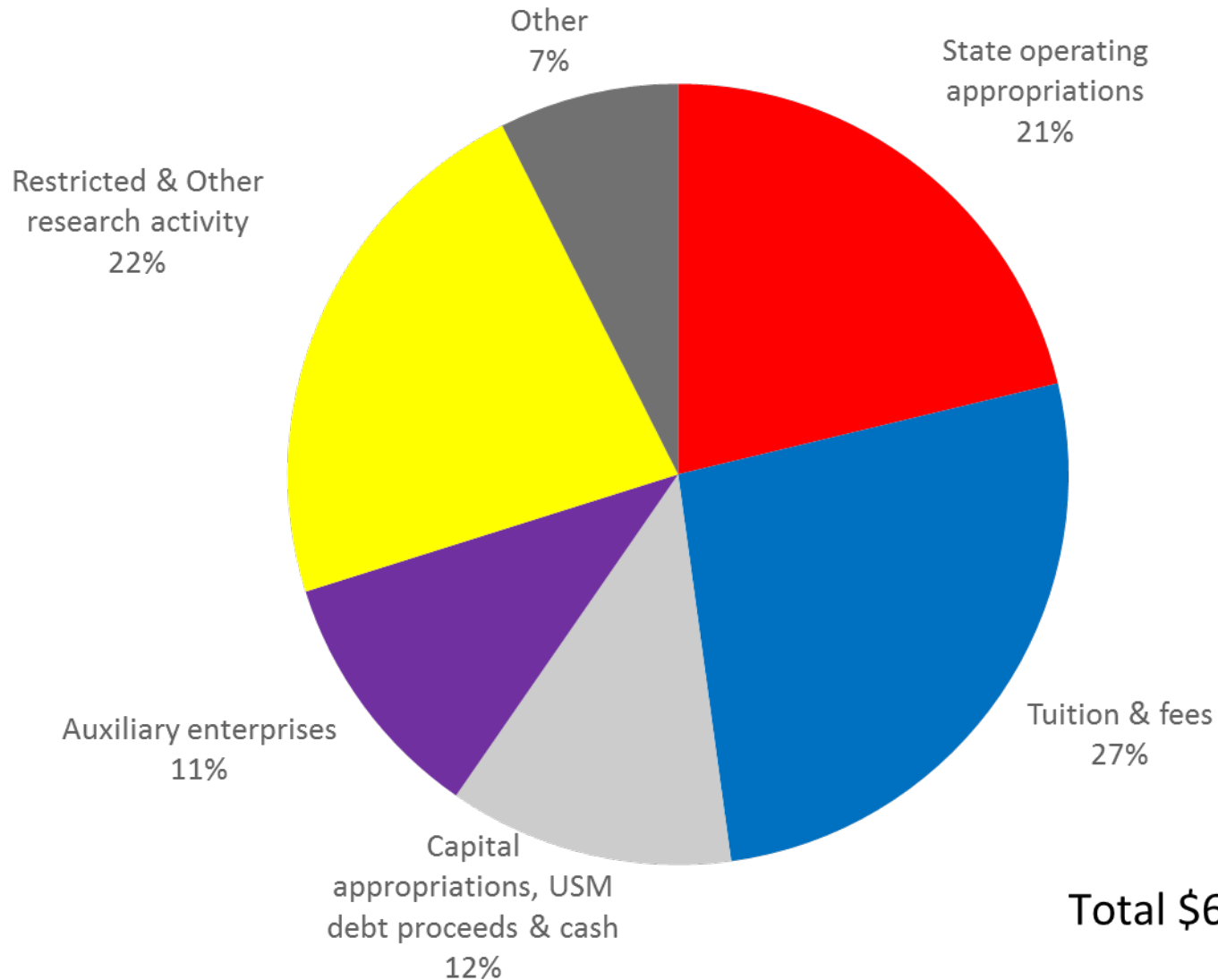
The USM Financial Model – Key Policy & Financial Parameters

- Annual deposit into fund balance – 1% of unrestricted funds
- Potential for relief from the fund balance goal
- Spending authority may vary based on type of expenditure:
 - BPW approval: Procurement service & capital improvement contracts > \$1M
 - System approval: cash-funded capital projects < \$5M
 - BOR approval: cash-funded capital projects > \$5M
- Initiatives funded from accrued fund balance above the 1% goal

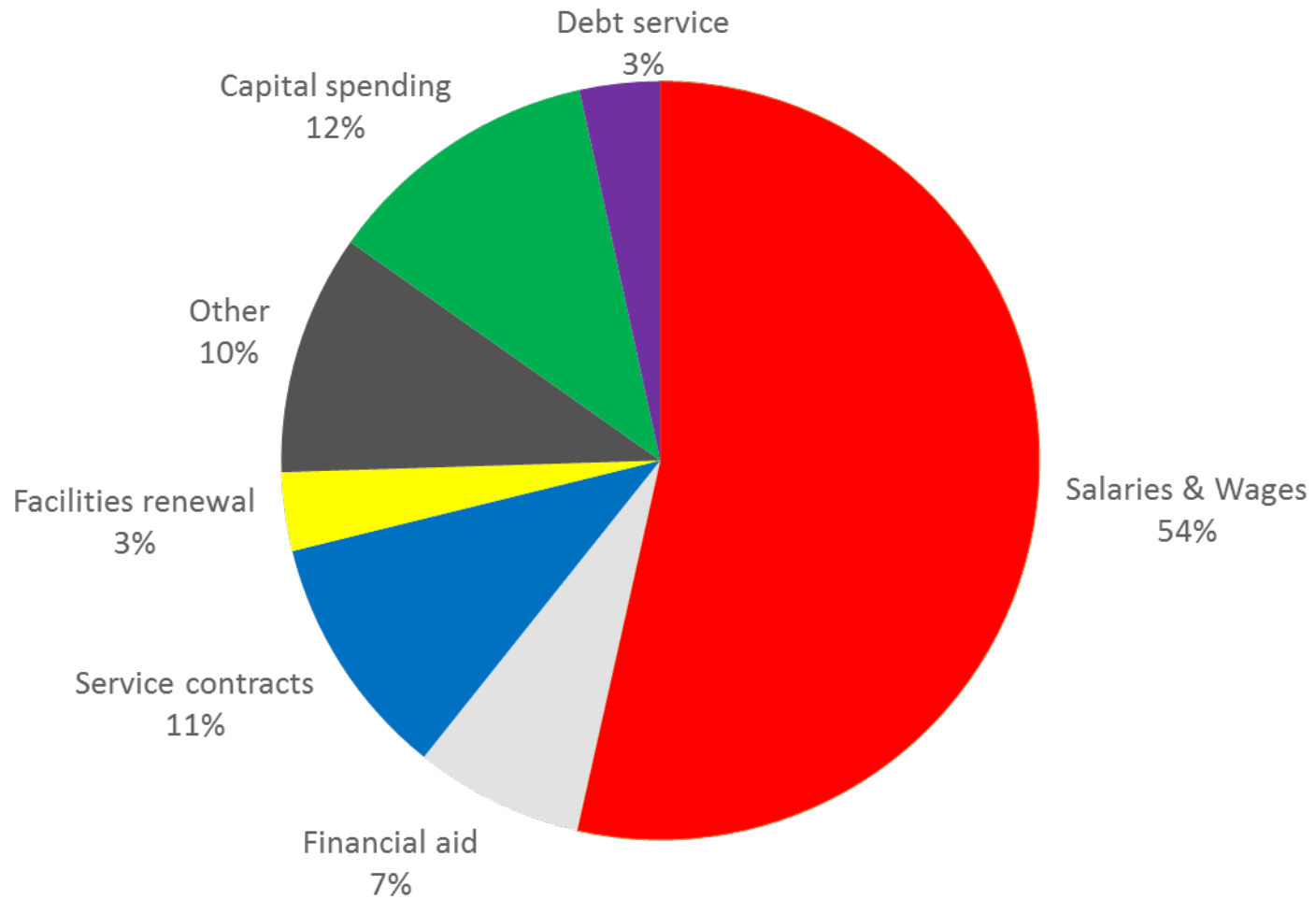
Additional Matters for Discussion - Some Candidate Items

- Enrollment management
- Institutional movement toward campus based instructional cost models
- Regional Center governance and the USM financial model
- Integrating financial aid into the funding guideline
- Financial aid and the impact of tuition discounting

Source of Funds



Uses of Funds



Total \$6 billion