PAT + OS + Extension Educator Councils Financial Structure Overview

03/08/2023
Budget Process vs Resource Allocation Model (RAM)

**Budget Process**
Establishes university-wide budget and expense parameters to support the objectives set forth by the BOT and unit leadership.

<table>
<thead>
<tr>
<th>FY24 Budget Process</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
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<tbody>
<tr>
<td>Revenue Projection</td>
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<td>Develop Parameters</td>
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<td>Full Budget Development</td>
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<tr>
<td>Review Meetings</td>
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<tr>
<td>Finalize and Submit</td>
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</table>

**Resource Allocation Model (RAM)**
An allocation tool that distributes financial resources generated for strategic initiatives and common or shared overhead costs.

- Direct expenses
- Strategic initiatives
- Overhead costs

Defines the revenues and expenses for FY24
RAM Attributes

- Simple to explain
- Awareness of resource trends
- Funds set aside for strategic investment and institutional growth
- Facilitation of conversations surrounding institutional priorities
- Transparency regarding sources and uses of institutional resources
- Alignment of revenues and expenses
**SOURCES OF $$$**
(e.g. – Colleges, Auxiliaries, Hybrids)

- **Total Revenue**
  - Less: Direct Expenses
  - Less: UNH Shared Service Cost
  - Less: 2% Strategic Investments
  - Less: X% Central Admin
  - Less: X% Facilities
  - Less: X% Academic Initiatives/Incentives

+/- Net Operating Revenue

**USES OF $$$**
(e.g. – Cost Centers)

- Direct Expenses (i.e. – Cost Centers)
- Strategic Initiative Fund (i.e., Margin Achievement, Strategic ROI Decisions)
- X% Academic Initiatives/Incentives Fund

Zero Operating Revenue

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**RAM:** How the Money Flows

- Mandatory Fees
- Housing & Dining Revenue
- UG & Grad Tuition
- Differential Tuition
- Course Fees
- F&A
- Other Aux Revenue
- Other Revenue

- **Cost Centers**
- **Initiative Funds**
- **Colleges & Schools**
- **Hybrids**
- **Auxiliaries**
Improvements in the new model

- Redistributes revenue to advance strategic priorities
- Eliminates credit hour weighting factors that distorted actual cost of delivery
- Eliminates 2-year delay in credit hour production allocation
- Simple to explain and operationalize, i.e. fewer assessment rates and internal transfers
- Promote rather than inhibit interdisciplinary work
- Incentivize efficient and effective ways to provide discovery coursework across units
- Multiple “levers” recognize the different ways that a unit can advance the university’s strategic priorities and initiatives.
Resource Allocation Model in FY24

➢ First year of implementation will be used to calibrate the model

➢ Create FY24 budget using new model methodology (Unrestricted, Internally Designated and Auxiliary funds only)

  • Revenue centers will budget both revenue and expense.
    * Initial undergrad (UG) tuition allocations will be based on FY23 headcount and credit hour production.
    * Graduate tuition will continue to flow to home college.
    * F&A allocation remains 66% unit, 24% central and 10% PI
    * Auxiliary and all other operating revenue flows directly to the unit.
Resource Allocation Model in FY24 (continued)

➢ Assessments will be applied to all revenue to create sufficient funding for the following:
   • Central administration assessment to offset cost centers (% based on total budget)
   • Facilities assessment to offset facilities annual operations (% based on facilities budget)
   • Academic assessment will be applied to Durham undergrad tuition to create the academic initiatives funding pool.
   • Strategic assessment to fund institutional priorities

➢ Outstanding items will be identified and researched for potential adjustment in the FY25 budget.
How academic units will be funded

- Undergraduate tuition
  - Credit hour delivery (80%)
  - Enrollment home unit (20%)
- Graduate tuition
  - Direct to home college/school
- Grant funding
  - Direct grants F&A (same 66%, 24%, 10%)
- Current use gifts and endowments

- Expanding academic and research excellence
  - Pell completions
  - Honors completions
  - UG graduation rate
  - High impact learning
  - Research proposals
  - Research graduate completions
  - ~ 60% of pool

- Funds to support investments and opportunities
- Transitional funds allocated to adjust to new model
  - ~40% of pool

- Direct Allocation
- Strategic Investment and Community Support
- Incentives
Macroeconomic forces are impacting higher education across the country

**Workforce Challenges**
More than half of the higher education workforce is at least “somewhat” likely to look for other employment opportunities in the next 12 months (heavily driven by choices around remote work).

**Growth in Operating Costs**
Overall, total expenses for postsecondary institutions grew 2% from 2019 – 2020, which was similar to the two previous fiscal years.¹

**Public Financing Declines**
While public allocations increased 4.5% to colleges and universities in 2021, if we remove COVID-19 stimulus money, allocations would likely have dropped 1%.²

**Enrollment Headwinds**
Following a 3.5% drop last Spring, postsecondary institutions have lost nearly 1.3 million students since Spring 2020. Undergraduate enrollment accounted for most of the decline, dropping 4.7% this Spring 2022.³

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As institutions return to Pre-COVID-19 operations and enrollment, colleges and universities must assess their business models

**Strengths**
- Wide Range of Academic Programs
- Retention and Graduation Rates
- NE Location/Campus Setting

**Weaknesses**
- Razor Thin OM
- High Expense Structure
- Limited Revenue Sources

**Opportunities**
- Graduate Program Growth
- Increased Research Grants
- Online Program Growth
- P3

**Threats**
- Declining High School Graduates (N.E.)
- Return of Trade Schools
- Improving Competition (UMass, UVM, UConn)
## Key Performance Indicators (KPI)

<table>
<thead>
<tr>
<th>Operating Income (Total)</th>
<th>FY23 YTD</th>
<th>FY23 Full Year Forecast</th>
<th>FY23 Budget</th>
<th>FY22 Actual</th>
<th>FY21 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues ($M)</td>
<td>551.7</td>
<td>706.1</td>
<td>663.9</td>
<td>690.5</td>
<td>616.4</td>
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<tr>
<td>Operating Expenses ($M)</td>
<td>390.9</td>
<td>700.1</td>
<td>683.8</td>
<td>656.7</td>
<td>631.0</td>
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<tr>
<td>Operating Income ($M)</td>
<td>160.7</td>
<td>6.0</td>
<td>(20.0)</td>
<td>33.7</td>
<td>(14.5)</td>
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<tr>
<td>Operating Income Pct</td>
<td>29.1%</td>
<td>0.8%</td>
<td>-3.0%</td>
<td>4.9%</td>
<td>-2.4%</td>
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<table>
<thead>
<tr>
<th>Undergraduate Enrollment</th>
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</thead>
<tbody>
<tr>
<td>Undergrad Enrollment (Fall R30)</td>
<td>11,903</td>
<td>11,903</td>
<td>12,173</td>
<td>12,073</td>
<td>12,358</td>
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<tr>
<td>Undergrad Gross Tuition ($M)</td>
<td>300.9</td>
<td>298.0</td>
<td>304.7</td>
<td>284.5</td>
<td>285.8</td>
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<tr>
<td>Undergrad Financial Aid ($M)</td>
<td>(133.9)</td>
<td>(138.2)</td>
<td>(142.9)</td>
<td>(130.1)</td>
<td>(125.6)</td>
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<tr>
<td>Undergrad Net Tuition ($M)</td>
<td>167.0</td>
<td>159.7</td>
<td>161.8</td>
<td>154.4</td>
<td>160.2</td>
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<tr>
<td>Undergrad Net Tuition/Student (Fall, $)</td>
<td>7,553</td>
<td>7,553</td>
<td>7,473</td>
<td>7,374</td>
<td>7,353</td>
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</table>

<table>
<thead>
<tr>
<th>Graduate Enrollment (Total)</th>
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<tbody>
<tr>
<td>Grad Enrollment (Fall R30)</td>
<td>2,974</td>
<td>2,974</td>
<td>2,948</td>
<td>2,925</td>
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<td>Grad Gross Tuition ($M)</td>
<td>59.4</td>
<td>61.7</td>
<td>66.1</td>
<td>55.3</td>
<td>50.6</td>
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<td>Grad Financial Aid ($M)</td>
<td>(26.8)</td>
<td>(26.9)</td>
<td>(26.4)</td>
<td>(24.2)</td>
<td>(21.3)</td>
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<tr>
<td>Grad Net Tuition ($M)</td>
<td>32.6</td>
<td>34.8</td>
<td>39.8</td>
<td>31.1</td>
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## FY23 - Recurring vs Non-Recurring Operating Income

<table>
<thead>
<tr>
<th></th>
<th>Recurring</th>
<th>Non-Recurring</th>
<th>Total</th>
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<tbody>
<tr>
<td><strong>Operating Revenues ($M)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Tuition / Fees</td>
<td>375.5</td>
<td>376.0</td>
<td>386.9</td>
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<tr>
<td>Financial Aid</td>
<td>-161.1</td>
<td>165.9</td>
<td>170.7</td>
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<tr>
<td>State Appropriation</td>
<td>35.2</td>
<td>60.4</td>
<td>60.4</td>
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<tr>
<td>Grants &amp; Contracts/F&amp;A/Pell</td>
<td>118.6</td>
<td>190.5</td>
<td>178.4</td>
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<tr>
<td>Non Cap Gifts &amp; Endowment Income</td>
<td>18.0</td>
<td>38.0</td>
<td>37.4</td>
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<tr>
<td>Sales of Aux Services</td>
<td>138.6</td>
<td>145.4</td>
<td>141.7</td>
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<tr>
<td>Other Operating Revenue</td>
<td>17.8</td>
<td>29.9</td>
<td>26.8</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>540.7</td>
<td>674.3</td>
<td>659.1</td>
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<tr>
<td><strong>Operating Expenses ($M)</strong></td>
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<tr>
<td>Employee Compensation</td>
<td>231.7</td>
<td>413.6</td>
<td>406.8</td>
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<tr>
<td>Supplies &amp; Services</td>
<td>112.4</td>
<td>187.4</td>
<td>184.4</td>
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<tr>
<td>Depreciation</td>
<td>30.9</td>
<td>54.1</td>
<td>50.6</td>
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<tr>
<td>Other Operating Expense</td>
<td>9.9</td>
<td>19.0</td>
<td>15.8</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>385.0</td>
<td>674.1</td>
<td>657.7</td>
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<tr>
<td><strong>Operating Income</strong></td>
<td>155.8</td>
<td>0.4</td>
<td>1.4</td>
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<tr>
<td><strong>Operating Margin</strong></td>
<td>28.0%</td>
<td>0.1%</td>
<td>0.2%</td>
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</table>