

UMass Lowell

Fiscal Year 2017 Operating Budget

July 12, 2016

Overview

The University of Massachusetts Lowell submits for review and approval its Fiscal Year 2017 Operating Budget totaling \$419.3 million. This budget reflects current (June 2016) assumptions about the state appropriation allocation and student charge decisions on campus finances.

The Fiscal Year 2017 Operating Budget Statement for the University of Massachusetts Lowell presents a general plan for the year and outlines our priorities, resources and planned use of funds in FY 2017. The document considers the FY2015 actual financial statement results, the forecasted results for FY2016 and the projected outcome for FY2017 based on the campus budget planning and parameters established by the President's Office.

Key elements of the FY2017 budget include:

- State appropriation that reflects a reduction in funding from FY2016 and no funding for the FY2017 costs of collective bargaining increases for state-funded employees that total \$4.6 million.
- The cost of providing fringe benefits is projected to increase 18% in FY2017 which adds \$7.6 million to our personnel costs.
- Projected 6.5% increase in revenue from tuition and fees due (net of financial aid) to student charge increases for in-state and out-of-state students and growth in undergraduate, graduate, out-of-state and continuing studies enrollment. Enrollment growth and rate increases are also driving 4.0% increase in auxiliary revenues.
- Other cost drivers include depreciation, operations and maintenance expenses and continued investments for the campus Division 1 and recreation program upgrades.
- To achieve the bottom-line budgeted for FY2017, the campus will reduce funding in a number of areas that will impact operations and our ability to achieve some of our strategic goals including: increasing the student/faculty ratio at least 18 to 1; further reduce staff and operating budgets in facilities, transportation, marketing, fundraising, athletics and other areas.

The overall result of the changes in budgeted revenues and expenses for FY2017 is a projected \$2.07 million surplus or a 0.4% operating margin. On an operating cash flow basis (adding back depreciation, and deducting capital expenditures and debt principle) the University expects a better outcome. However, if the final state appropriation allocation to the Lowell campus is less than what is built into this budget and/or if the University does not support the student charge increases requested, the campus will have to implement more drastic budget solutions than those that are already planned which will stunt the campus strategic growth plan.

UMass Lowell 2020 Strategic Plan

UMass Lowell formally launched the public phase of *Our Legacy, Our Place: The Campaign for UMass Lowell* in April 2016. This comprehensive fundraising campaign has a goal of \$125 million by 2020 and five clearly defined priorities consistent with the vision outlined in our strategic plan:

- Increase student scholarships to alleviate the student debt burden;
- Invest in first-rate faculty;
- Enhance our facilities and campus;
- Bolster our Division I athletics program; and
- Strengthen our alumni engagement.

The University of Massachusetts Lowell embarked on its strategic planning process six years ago to craft a bold vision for its future and map out a blueprint to achieve its ambitious goals by 2020. Stakeholders from across the university community came together and articulated a clear vision that defined our values as an institution, laid out our direction for the future and set the strategies to bring our plan to life. [UMass Lowell 2020 Strategic Plan](#).

In the intervening years, the campus has made great progress in every area. Enrollment has climbed, research flourished, opportunities for experiential and international learning increased, the endowment has grown and collaborations with industry and other partners are thriving. In a sign of the national and international recognition of this progress, the university has steadily climbed in numerous college rankings.

From the outset, the campus committed that the strategic planning process would be an open, transparent, inclusive and iterative process. To that end, over 250 faculty and staff have engaged in thoughtful meetings, consultations and retreats to constantly update and revise the direction and benchmarks that define UMass Lowell 2020. Now, midway through the process, we are updating our 2020 plan to map our course for the next five years. As a university we have identified the strategic imperatives – our five Pillars of Excellence -- that must be pursued to continue the forward momentum. These imperatives will guide us as we plan for the future ([Pillars of Excellence](#)).

The UMass Lowell 2020 Report Card ([UMass Lowell Report Card](#)) is published annually and benchmarks our progress on the key indicators that we as a University have identified as being critical to our success.

Enrollments grew 50% between 2007 and 2015 and are projected to grow 3.2% this Fall. UMass Lowell is expanding out-of-state and international enrollments, Master's and on-line enrollments and is focused on increasing the retention and persistence of current students to maintain enrollment levels and improve student outcomes. This growth *has not* come at the expense of selectivity, quality or diversity. Sponsored research funding has increased 72%. The campus facilities master plans will address the pressures of current and future growth including demand for new academic programs and residential and recreational facilities and the continued need to

renew facilities with systems that show signs of obsolescence and address the backlog of deferred maintenance.

A critical element of the strategic plan is that it be financially sustainable into the future. The campus multi-year financial planning targets and annual operating budget goals are directed toward achieving positive annual operating margins, building sufficient reserves and maintaining a debt service ratio under the University policy cap of 8 percent. The strategic plan and updates to the campus multi-year financial plan and capital plan are reviewed annually by the President's Office and the Board of Trustees and have received support.

Enrollment growth has been a driving force behind the success of the strategic plan. Growing enrollments, resulting from growing demand, has created economies of scale in facilities use and service delivery and generated the additional revenues to make further investments in those areas that would improve student success and enhance the quality of the academic and research program including the many new and renovated facilities across all three campuses.

The campus has embraced and is implementing many academic and administrative efficiency and effectiveness initiatives and ideas generated throughout the University system. It is through the combination of increasing revenues through enrollment, fundraising, sponsored research and entrepreneurial activities and controlling costs that will result in a financially sustainable future. Slowing down any of these efforts will impact progress.

FY 2017 Budget Planning Assumptions

Revenues

State Support

The University of Massachusetts Lowell FY2017 operating budget utilizes the state appropriation allocation assumptions proposed by the President's Office. The FY2017 state appropriation allocation assumption of \$85.8M (with fringe, \$111.4M) does not include state funding to support bargaining unit raises for state funded employees or any new state funds above what was appropriated in FY2016. The cost of the unfunded negotiated wage increases (including the cost of fringe benefits) is \$6.2 million.

Enrollment and Student Charges

The Lowell campus anticipates an overall headcount enrollment increase of 3.2% for Fall 2016 to 18,000 students on the way to our 2020 target of 20,000. As indicated, UMass Lowell is expanding out-of-state and international enrollments, Master's and on-line enrollments and is focused on increasing the retention and persistence of current students to maintain enrollment levels and improve student outcomes. Out-of-state students represented 8.7% of undergraduates in FY2011; currently they represent 12.6% of undergraduates. The 2020 target is 15%.

| LOWELL | | | | | |
|---------------------|---------------|---------------|---------------|---------------------|---------------------|
| Student FTEs | FY15 | FY16 | FY17 | # Change | % Change |
| UG - In State | 9,302 | 9,585 | 9,892 | | |
| UG - Out State | 1,319 | 1,379 | 1,423 | | |
| UG Total | 10,621 | 10,964 | 11,315 | 351 | 3.2% |
| G - In State | 1,605 | 1,592 | 1,643 | | |
| G - Out State | 1,144 | 1,064 | 1,098 | | |
| G Total | 2,749 | 2,656 | 2,741 | 85 | 3.2% |
| TOTAL ALL | 13,370 | 13,620 | 14,056 | 436 | 3.2% |

The university has proposed increasing mandatory tuition and operating fees by \$780 for all in-state undergraduate students and \$780 for all in-state graduate and \$1650 for out-of-state undergraduates.

| <u>In-State Undergraduate</u> | FY 16 | FY 17 | \$ Change |
|--|--------------|--------------|------------------|
| <u>Tuition & Mandatory Fees</u> | | | |
| Lowell | \$13,527 | \$14,307 | \$780 |

The enrollment growth and student charge increases will result in an estimated 6.0% increase in tuition and fee revenue (net of financial aid). Enrollment growth and efforts to expand the residential experience for students will generate a 4.0% increase in revenues from Residential Housing and Food Services.

Grants & Contracts

Grant and contract revenue from all sources is projected to remain level in FY2017. The campus expects an overall increase of 3.5% in government grants and contracts. However, we have adjusted down our estimates for the Raytheon/Kuwait initiative in FY2017 which has slowed down resulting in net level growth.

Expenditures

The campus funded 140 new full-time faculty between FY2009 and FY2016 to meet enrollment growth and program needs and has budgeted faculty in FY2017 with a targeted 18:1 student faculty ratio. Staffing levels have increased in areas of critical importance to the strategic plan, primarily in the facilities, public safety, student services and academic support areas. However, the campus intends to greatly limit any new staff hires in FY2017 to only those personnel essential to the health and safety of the campus community or are critical to enhancing student success and revenue growth. Salaries will increase 2.4% and benefits costs will increase more than 18% over FY2016; depreciation expense will grow 1.8% or \$2.6 million. Total campus operating expenditures will

increase 4.4%. As noted above, the overall result of the changes in revenues and expenses is a projected breakeven operating margin for FY2017.

| LOWELL | | | |
|------------------------|----------------|----------------|----------------|
| FTEs (in model) | FY15 | FY16 | FY17 |
| Faculty | 552.0 | 566.0 | 566.0 |
| Professional | 797.0 | 857.0 | 857.0 |
| Classified | 228.0 | 222.0 | 222.0 |
| TOTAL | 1,577.0 | 1,645.0 | 1,645.0 |

Additional funding to support the operations of the new facilities coming on-line, including a full-year of McGauvran and Riverview Suites and a partial year of the Pulichino-Tong Business Building expected to come on line mid fiscal year.

Capital Planning & Facility Improvements

During fiscal year 2017 the campus will continue to move forward with its highest priority capital projects and facilities renovation program despite a clear slowdown in state support for our capital plan.

The campus borrowed \$100 million in February of 2015 through UMBA to finance the McGauvran Dining hall renovation project, the Pulichino-Tong Business (PTB) School construction project and the acquisition of Perkins Apartments which will be purchased in July 2016 and converted to student housing by fall 2017. McGauvran opened in Spring of 2015 and the PTB project is moving towards completion in March of 2017. Additionally, the significant North Campus Quad pod project will be completed in the Fall of 2016. This project and the space that will be freed up with the occupancy of the PTB provide the campus a tremendous opportunity to begin the much-needed upgrades to the North Campus Science and Engineering buildings. Perry Hall design is moving forward despite the current pause in state capital funding.

Based on the most recent report done for the University by Sightlines, the campus has a deferred maintenance project backlog of \$640 million that should be addressed over the next 10 years.

Fifty-four percent of this backlog represents immediate needs (0-3 years) whereby critical facility subsystems such as HVAC, electrical and plumbing systems, building envelopes and roofs have already failed or are functioning at greatly degraded efficiency at great cost that will continue to increase.

In addition, the Sightlines report has identified the systems that will come to the end of their useful lives over the next ten years as well as those spaces that will need renewal so that they can continue to meet the programmatic needs of the campuses. Nearly 50% of the spending planned in the current five-year capital plan (FY2015-2019) will address this backlog. The repair and renovation

projects noted above, the large state and UMBA managed projects and targeted demolition will drive down the backlog.

Increased operating budget allocations to preventative and on-going maintenance will also slow the growth of the backlog. The University's operating budget fully recognizes the costs of depreciation (consistent with the financial statement presentation). This recognition provides cash flow for campus capital improvements.

The campus has started or completed nearly all of the major new facilities to be funded with debt in the current five-year capital plan. Moving forward, the primary sources of funds for new facilities, renewal, renovations and deferred maintenance will be the state, gifts, campus operating budgets and other external sources. The multi-year capital and financial plans are in sync.

Campus Efficiency and Effectiveness Update

Striving to improve services and support a sustainable financial future are key elements of the Entrepreneurial Stewardship Pillar of Lowell's 2020 Strategic Plan. Numerous E&E initiatives in recent years reflect our on-going commitment to these goals. The campus has initiated many E&E projects and programs related to Energy, Information Technology, Human Resources, Purchasing and Revenue Generation. The campus has recently added a new 2020 Committee under the Transformational Education Pillar of the Strategic Plan: Academic Effectiveness and Efficiency. This committee will focus on identifying and implementing E&E programs focused on improving student success, course and program delivery, enhancing collaborations with other colleges and universities, laboratories and industry partners. The committee will also look at ways to increase revenues through expanding the successful on-line program and enhancing our enrollment management activities to grow the number of out of state, international and Master's degree students.

Workforce Management

- The campus has implemented a second shift for facilities staff that will save on overtime and improve service delivery.
- Recent collective bargaining negotiations yielded many management improvements including modifications to employee spouse/dependent tuition benefits and a cap on employee accrual of sick leave to 120 for all new hires after July 1, 2015.
- Lowell implemented the Position Management module in Peoplesoft to provide more effective and efficient budget management of positions across the campus. We have established an Essential Hiring process resulting in the elimination, reallocation and deferral of nearly 40 positions. The Essential Hiring Committee will continue to review all positions that become vacant each month. Staff additions will be limited to those that are critical to the success of the strategic plan and to the safety and security of the campus community.

Information Technology

- The campus has a major campus-wide IT infrastructure improvement plan underway which includes the replacement of Core, Aggregate, and Edge Switching components. IT

and procurement services negotiated significant equipment and maintenance savings from current seller on contract price from the previous bid.

- In addition, IT and procurement services renegotiated the discount off of list price for our wireless solution contract increasing from 45% to 65.5% with our initial order getting a 68.5% discount.

Sustainability

- Lowell has coordinated efforts between a number of departments to improve our multi-year solid waste and recycling contracts to reduce costs and improve our recycling and food composting program including a food diversion program and a program to reuse student residential goods programs to support local non-profits.
- Our Environmental Management team secured a Federal grant to support our radiological waste disposal.

Energy & Facilities Management

- The campus has many on-going and significant energy efficiency projects including the major partnership with DCAMM on our \$26M Accelerated Energy Program. New additions include coordinated projects to update HVAC controls and units to improve energy efficiency; using data mining techniques with our improved control systems to understand and proactively solve control and device issues; and adjusting operations of all the fume hoods in the Saab ETIC building to operate more efficiently.
- The Lowell campus has partnered with DCAMM to be an early adopter of the new CAMIS facilities management system, Tririga. We have avoided significant costs, estimated at \$250K by not having to bid, purchase and install a separate facilities management software tool that would have to be integrated with the state CAMIS system.

Revenue Enhancement

- The campus has established a new unit - Hospitality & Events Services - focused on maximizing the use of facilities throughout the year to take advantage of our great venues and the many events that take place on campus and in the Greater Lowell region. We are expanding our conferencing and private events services to generate net new revenues for campus operations and facilities renewal.
- The division of Entrepreneurship and Innovation and our M2D2 research center have increased corporate sponsorships to enhance programming and support the operations of new facilities.

Enterprise Risk Management

- The University's ERM approach and focus will greatly enhance the efficient and effective delivery of critical services and mitigate potential losses or mitigation costs in the future. For example, we have revised revenue control procedures and training programs to improve revenue collections across the campus; a campus policy committee is reviewing, revising and standardizing all campus policies; comprehensive records management and IT Security programs have been launched.
- UMass Lowell recently secured a federal FEMA Grant to install an emergency generator at our recreation center so students could shelter in place under emergency conditions. We were awarded this grant because of campus efforts to develop a comprehensive Hazard Mitigation Plan that was approved by FEMA.

- The campus continues a multi-year program to install card access devices onto high hazard and high security doors throughout campus as well as interior and exterior surveillance cameras where appropriate.

Coops & Internships

- Providing “real world” experiential learning opportunities to students is critical to their development and a strategic differentiator for UMass Lowell. In FY15, 285 students participated in full-time academic coops. Many students also participated in part-time academic internships. Some of our vendor contracts include internship and/or employment opportunities for our students including: Casella Waste, OfficeMax, Extreme/Carousel, Westford Solar and Pepsi Co.

Finally, the Lowell campus continues to partner with the system office and other campuses on system-wide contracting and procurement initiatives to drive savings and control costs.

Campus Budget Actions FY2016 and FY2017

The University’s original FY2016 Operating Budget approved by the Board of Trustees had a planned deficit of -\$2.3 million consistent with the campus multi-year financial plan. However, in an effort to adjust to the current FY2017 planning environment and Board expectations, the campus has taken the following actions to adjust budgets further:

- Reduced funding for maintenance in FY2016
- Operational budgets adjusted to control costs including travel, events, and publications
- Personnel reductions through attrition, vacancy savings, and retirements
 - Hiring freeze (non-faculty) and monthly review of vacant positions by Executive Cabinet for essentiality. To date the campus has eliminated or repurposed 25 vacant positions and deferred another 20 position postings
 - Implement University Incentive Retirement Plan (URIP) for faculty (“round two”).

These adjustments allow the campus to forecast a \$1.6 million operating margin for FY2016.

In order to achieve the bottom-line budgeted for FY2017 the campus will be taking the following budget actions:

- Increase the student/faculty ratio to at least 18:1.
- Make further staff and operating budget reductions.
- Further reduce maintenance and not staff-up for new facilities. This will increase risk of system failures and add to the backlog.
- Reduce planned investments in Athletics.
- Reduce funding for campus transportation services. This will impact student life and our efforts to reduce greenhouse gases.
- Reduce investments in marketing and fundraising. This will impact recruitment, rankings and support for our capital campaign.

- Continue to defer the launch of the School of Pharmacy unless specific funding for this program can be obtained.

| UMass Lowell | | FY17 |
|-------------------------|--|-------------|
| Operating Margin | | 0.5% |
| Revenues | | 440,277 |
| Expenses | | 438,207 |
| Surplus/(Deficit) | | 2,070 |

If the Lowell campus is required to achieve a bottom line that is more aggressive than what is budgeted, if the state appropriation is less than projected and/or our student charge recommendations are not supported by the Board of Trustees the campus will need to cut more in the areas outlined above. Additional budget cuts such as a reduction in financial aid and an increase in student/faculty ratio will significantly impact the quality of our programming and our ability to attract and retain students.

Attachment: Statement of Revenues, Expenses and Changes in Net Position

| | FY15 | FY16 Projected | FY17 | FY16-17 Variance |
|--|-----------------|-----------------------|------------------|-------------------------|
| Lowell- Statement of Revenues, Expenses and Changes in Net Position | | | | |
| Operating revenues | | | | |
| Net tuition and fees | 164,963 | 180,940 | 189,386 | 8,447 |
| Government grants and contracts | 32,787 | 35,044 | 36,137 | 1,093 |
| Private grants and contracts | 10,903 | 9,936 | 8,783 | (1,153) |
| Local grants and contracts | 496 | 540 | 559 | 19 |
| Sales and services of educational activities | 66 | 122 | 125 | 4 |
| Auxiliary enterprises | 52,725 | 56,764 | 59,012 | 2,247 |
| Other revenues | 8,205 | 8,615 | 8,873 | 258 |
| Total operating revenues | 270,145 | 291,960 | 302,875 | 10,915 |
| Operating expenses | | | | |
| Salaries & Fringe | 219,200 | 235,867 | 248,916 | 13,049 |
| Non-personnel expense | 111,693 | 122,426 | 123,062 | 637 |
| Scholarships and fellowships | 9,383 | 9,670 | 11,065 | 1,395 |
| Depreciation | 28,666 | 33,636 | 36,245 | 2,609 |
| Amortization | - | - | - | - |
| Total operating expenses | 368,942 | 401,599 | 419,288 | 17,689 |
| Operating Surplus (Deficit) | (98,797) | (109,639) | (116,413) | (6,774) |
| Non-operating revenues (expenses) | | | | |
| Federal appropriation | - | - | - | - |
| State appropriations | 96,633 | 104,435 | 111,417 | 6,982 |
| Local appropriations | - | - | - | - |
| Gifts | 3,159 | 3,958 | 4,300 | 342 |
| Investment and endowment return | 2,997 | 8,848 | 5,809 | (3,039) |
| Interest expense | (18,371) | (21,952) | (18,919) | 3,033 |
| Non-operating Federal Grants | 15,985 | 15,933 | 16,186 | 253 |
| Gain (loss) on issuance/retirement of long-term debt | - | - | - | - |
| Change in value of assets held in trust | - | - | - | - |
| Other nonoperating revenue (expense) | 135 | 46 | 46 | - |
| Total non-operating revenues (expenses) | 100,538 | 111,268 | 118,839 | 7,572 |
| Income (loss) before other revenues, expenses, gains or loss | 1,741 | 1,629 | 2,426 | 797 |
| Other revenues, expenses, gains or losses | | | | |
| Capital appropriations | 7,099 | 15,650 | 12,673 | (2,977) |
| Capital grants | - | - | - | - |
| Capital gifts | 10,666 | 10,455 | 5,000 | (5,455) |
| Gain (loss) on sale of property, plant and equipment | (1,299) | (1,003) | (407) | 596 |
| Other changes in net assets | (1,748) | 303 | 303 | - |
| Net transfers | - | - | - | - |
| Total other revenues, expenses, gains or losses | 14,718 | 25,405 | 17,569 | (7,836) |
| Change in net assets | 16,459 | 27,034 | 19,995 | (7,039) |