

UMass Lowell

Fiscal Year 2016 Operating Budget

June 2015



FY16 Lowell Campus Budget Overview

The University of Massachusetts Lowell submits for review and approval its Fiscal Year 2016 Operating Budget totaling \$406.9 million. This budget reflects current (April 2015) assumptions about the state appropriation allocation, collective bargaining funding and student charge decisions on campus finances.

The Fiscal Year 2016 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 2016. The document considers the FY2014 actual financial statement results, the forecasted results for FY2015 and the projected outcome for FY2016 based on the campus budget planning and parameters established by the President's Office.

Key elements of the FY2016 budget include:

- State appropriation that reflects level funding from FY2015 and no funding for the FY2016 costs of collective bargaining increases for state-funded employees that total \$4.8 million (incl. fringe).
- Projected 10.5% increase in revenue from tuition and fees due to student charge increases for resident, non-resident students and resident graduate students and growth in undergraduate, graduate, out-of-state and continuing studies enrollment. Enrollment growth and the opening of new residential halls also driving 8.8% increase in auxiliary revenues.
- Increased investment in new faculty and student service staff.
- Other cost drivers include depreciation, interest and operations and maintenance expenses, continued investments for the campus Division 1 and recreation program upgrades, the opening of the new phase two of the Riverview Suites residential hall and McGauvran Dining hall and initial start-up costs for the School of Pharmacy.

The overall result of the changes in budgeted revenues and expenses for FY2016 is a projected \$2.3 million deficit or a -0.4% operating margin to be funded by accumulated surpluses. On an operating cash flow basis (adding back depreciation, capital expenditures and debt principle) the University expects a breakeven 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 which will stunt the campus strategic growth plan.

FY15 Highlights

The campus continues to experience dynamic enrollment growth. Enrollment increased by 259 headcount students between Fall 2013 and Fall 2014 (including on-line and continuing education). Student enrollment generated revenue has become a significant portion of the University's unrestricted revenue to support core educational and general activities as well as capital improvements and the costs of borrowing for new facilities and infrastructure upgrades.



The campus allocated \$11.1 million in new funds in FY2015 for several key campus priorities, including student services, high-quality teaching, entrepreneurial learning and research, student financial aid and the ongoing build-out of our Division I athletics program. In addition to these strategic investments, the budget funded fixed cost increases of more than \$9.1 million for debt service, utilities, system office assessments and fringe benefits in FY2015.

FY2015 student revenues are forecasted to increase 8.3% over FY2014 due to enrollment growth and increased rates. The Lowell Campus is currently forecasting a \$1.9 million surplus breakeven operating result for FY2015. This forecast is an improvement over the \$6.2 million operating deficit (-1.6%) budgeted last year at this time but consistent with the update reported for the rating agency review in February of 2015. The positive variance forecasted from budget is due to on-line and continuing education and room and board operating revenue growth as well as payroll vacancy savings (unfilled positions) and utilities.

Strategic Plan

The University of Massachusetts Lowell embarked on a strategic planning process five 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 more than 48% between 2007 and 2014 and are projected to grow 4% 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 80%. 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 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.

FY16 Revenue and Expenditures

State Support

The University of Massachusetts Lowell FY2016 operating budget utilizes the state appropriation allocation assumptions proposed by the President's Office. The FY2016 state appropriation allocation does not include state funding to support bargaining unit raises for state funded employees or any new state funds above what was appropriated in FY2015 (prior to the February 2015, 9C cut). The cost of the unfunded negotiated wage increases (including the cost of fringe benefits) is \$4.8 million.

Enrollment and Student Charges

The Lowell campus anticipates a 4.0% increase in undergraduate enrollment for Fall 2015. The university has proposed increasing mandatory tuition and operating fees by 5.0% for all resident and non-resident graduate and undergraduate students.

The enrollment growth and student charge increases will result in an estimated 10.5% increase in tuition and fee revenue (net of financial aid). Enrollment growth and efforts to expand the residential experience for students will generate a 8.8% increase in revenues from Residential Housing and Food Services.



Grants & Contracts

Grant and contract revenue from all sources is projected to increase by over 13% in FY2016, reflecting a 3.4% increase in government grants and contracts as well as new contracts from both the Raytheon research partnership and the new GUST initiative.

Expenditures

New faculty and staff (see below), collective bargaining and increased fringe rates will increase salaries and benefits 6.7% over FY2015; depreciation expense will grow 15% or \$4.2 million. In total, campus operating expenditures will increase 8.4%.

As noted above, the overall result of the changes in revenues and expenses is a projected \$2.3 million deficit or a -0.4% operating margin for FY2016 funded by accumulated surpluses. Some of the key elements of the strategic plan that are driving these results include:

- Division I: The multi-year investment plan to elevate the campus athletic program to Division I requires funding to bring scholarships, staffing, team budgets and campus facilities to standards expected by America East and the NCAA as well as the initial entrance fees. Once full membership is achieved in year four, the campus subsidy for athletics will stabilize.
- School of Pharmacy: UMass Lowell established the M.S. and Ph.D. in Pharmaceutical Sciences in response to workforce shortages in Massachusetts, particularly in the high-tech biopharmaceutical arena. The establishment of the program was supported by the President's Office and the state's 2011 Pharmacy Commission and the Board of Trustees. The new School of Pharmacy is now actively seeking faculty and students to begin classes in Fall 2017 with a target of receiving full ACPE accreditation in 2021. The campus is seeking external support for the start-up costs including gifts and system-office enhancement funds until enrollments are sufficient to support operations per the plan.
- University Crossing: The new \$97 million student center received no state funding and was fully financed through UMBA. Borrowing and operating costs are included in the budget and multi-year plan.

Capital Planning & Facility Improvements

During fiscal year 2015 the final two floors of the Saab-ETIC facility were opened to support the continued development of the campus pharmaceutical sciences program and our multi-million dollar industry partnership with the Raytheon Corporation. The campus opened University Crossing and completed the Leitch & Bourgeois Residential Hall renovation project.

The campus borrowed \$100 million in February of 2015 through UMBA to finance the McGauvran Dining hall renovation project, the Pulichino-Tong Business School construction project as well as acquisition and renovation funds.

Based on a recent report done for the University by Sightlines, the campus has a deferred maintenance project backlog of \$593 million that must be addressed over the next 10 years.



Sixty-percent of this backlog represent immediate needs 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 these costs.

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 E&E Efforts

The Lowell campus continues to implement E&E initiatives that result in cost savings and increased service to students and the university community. Striving to improve services and support a sustainable financial future are key elements of the Entrepreneurial Stewardship Pillar of Lowell's 2020 Strategic Plan. The campus E&E initiatives reflect our on-going commitment to these goals.

Procurement

In addition to the system-wide contracting and procurement initiatives, the Lowell campus has found additional savings by: negotiating and re-negotiating various IT maintenance and equipment contracts; strategic sourcing of FF&E for our new University Crossing facility; and implementing improvements to construction bidding procedures.

In addition, the campus has negotiated significant capital contributions from our food service, bookstore and beverage partners to advance our strategic capital program and provide improved service and support to students.

Energy

The Lowell campus has partnered with the Division of Capital Asset Management and Maintenance (DCAMM) on a \$26 million performance contract to renew campus infrastructure that will reduce energy consumption by 20% or more. Other efforts to improve energy efficiency and reduce green house gas emissions on campus include a strategic use of net metering credits and third party incentive programs as well as a comprehensive effort to improve



lighting indoors and in parking lots and improve how we control and manage HVAC, steam and water systems.

Other E&E Initiatives

There are many other initiatives implemented to improve service for our students and customers and to reduce campus costs. Examples include: workforce management and organizational development efforts to reorganize and realign administrative service areas including outsourcing of non-police security services; deploying new technologies such as virtual desktops, document imaging and management solutions (incl. eForms); and providing additional payment options and systems for students and families to pay tuition, room and board costs.

Staffing Overview

The campus funded 102 new faculty between FY2009 and FY2015 to meet enrollment growth and program needs and has budgeted an additional 11 new faculty in FY2016. 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. The campus is assuming that it will fill approximately half of its budgeted vacant staff positions in FY2016 or approximately 35 FTE. In addition, the new Kuwaiti initiative will result in approximately 10 new externally funded faculty and 12 staff.

Enrollment Overview

The FY2016 budget assumes 4% growth in undergraduate students and 4.5% growth in graduate students. The campus is continuing to expand non-resident, including international student, enrollments as well as on-line programming. These growth assumptions are less than the average annual growth of 11% experienced by the campus between Fall 2007 and Fall 2014 when total student headcounts grew from 11,635 to 17,191.

Attachments:

- Table 1: SRECNP
- Table 2: Natural Classification
- Table 3: Employee FTEs
- Table 4: Enrollment



Table 1: SRECNP

	FY13	FY14	FY15	FY16	Variance FY16-15
Lowell- Statement of Revenues, Expenses and Changes in Net Assets					
Operating revenues					
Net tuition and fees	139,748	152,563	165,153	182,429	17,276
Government grants and contracts	28,242	29,483	32,448	33,547	1,099
Private grants and contracts	10,160	10,073	10,289	15,077	4,788
Local grants and contracts	322	457	490	506	16
Sales and services of educational activities	129	33	118	122	4
Auxiliary enterprises	36,188	45,101	52,177	56,764	4,588
Other revenues	6,046	6,726	7,393	7,615	222
Total operating revenues	220,835	244,436	268,067	296,059	27,992
Operating expenses functional					
Instruction	105,148	111,203	116,665	122,649	5,984
Research	35,921	36,624	40,147	45,629	5,482
Public Service	1,321	830	855	881	26
Academic Support	22,656	26,112	28,450	30,830	2,380
Student Services	21,280	27,033	31,916	34,586	2,670
Institutional Support	39,316	43,222	48,335	52,379	4,044
Operation and Maintenance of Plant	30,056	34,453	38,565	41,791	3,226
Depreciation and Amortization	19,855	24,158	26,972	31,138	4,166
Scholarships and fellowships	9,767	9,932	12,675	13,394	719
Auxiliary Enterprises	21,176	26,276	30,902	33,619	2,717
Other Expenditures	-	-	-	-	-
Independent Operations	-	-	-	-	-
Public Service Activities	-	-	-	-	-
Total operating expenses	306,496	339,843	375,482	406,897	31,415
Operating Surplues (Deficit)	(85,463)	(95,175)	(107,415)	(110,838)	(3,423)
Non-operating revenues (expenses)					
Federal appropriation	-	-	-	-	-
State appropriations	79,228	88,136	99,893	100,666	772
Local appropriations	-	-	-	-	-
Gifts	2,170	3,484	3,919	3,958	39
Investment and endowment return	7,994	10,004	6,510	4,228	(2,283)
Interest expense	(9,625)	(12,311)	(17,402)	(17,010)	393
Non-operating Federal Grants	15,410	15,781	16,307	16,633	326
Gain (loss) on issuance/retirement of long-term debt	-	-	-	-	-
Change in value of assets held in trust	-	-	-	-	-
Other nonoperating revenue (expense)	114	8	46	46	-
Total non-operating revenues (expenses)	95,291	105,102	109,273	108,521	(752)
Income (loss) before other revenues, expenses, gains or losses	9,828	9,927	1,858	(2,316)	(4,175)
Other revenues, expenses, gains or losses					
Capital appropriations	17,164	2,788	8,300	32,400	24,100
Capital grants	8,613	5,843	-	-	-
Capital gifts	-	-	8,800	5,155	(3,645)
Gain (loss) on sale of property, plant and equipment	(1,388)	1,550	(1,271)	(1,003)	268
Other changes in net assets	(379)	178	303	1,103	800
Net transfers	-	-	-	-	-
Total other revenues, expenses, gains or losses	24,010	10,359	16,132	37,655	21,523
Change in net assets	33,838	20,286	17,990	35,339	17,348



Table 2: Natural Classification

	FY13	FY14	FY15	FY16	Variance FY16-15
Operating expenses					
Salaries & Fringe	191,682	203,762	225,251	240,416	15,165
Non-personnel expense	84,994	101,759	110,584	121,950	11,365
Scholarships and fellowships	9,767	9,932	12,675	13,394	719
Depreciation	19,657	23,926	26,972	31,138	4,166
Amortization	198	232	-	-	-
Total operating expenses	306,298	339,611	375,482	406,897	31,415

Table 3: Employee FTEs

	FY13	FY14	FY15	FY16
Lowell - Employee FTEs				
UNRESTRICTED/DESIGNATED FUNDS				
Faculty	518.5	532.1	540.5	552.0
Professional Staff	534.3	620.7	684.5	719.1
Classified Staff	207.2	218.5	222.6	234.6
Total unrestricted FTEs	1,260.0	1,371.3	1,447.6	1,505.7
RESTRICTED FUNDS				
Faculty	9.1	9.7	8.8	19.0
Professional Staff	123.6	117.8	103.6	119.0
Classified Staff	4.8	2.0	-	-
Total restricted FTEs	137.5	129.5	112.4	138.0
Total employee FTEs	1,397.5	1,500.8	1,560.0	1,643.7

Table 4: Enrollment

	FY13	FY14	FY15	FY16
Lowell - Student Enrollment				
Headcount				
Undergraduate	12,287	12,734	12,993	13,513
Graduate	4,007	4,198	4,198	4,387
Total headcount	16,294	16,932	17,191	17,900
FTEs				
Undergraduate	9,972	10,333	10,621	11,053
Graduate	2,518	2,692	2,749	2,873
Total FTEs	12,490	13,025	13,370	13,926