

# University of Akron

Discussion Document

November 21, 2016



# Limitations and Restrictions

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# Executive Summary

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## Enrollment/Revenue Challenges:

- ▶ UA has experienced declining enrollment for the last 5 years, placing significant financial pressure on its operations (largest decrease in FY17 of 8% - First Time Full Time Freshman decrease in FY17 was 20%)
- ▶ Enrollment decline has placed additional pressure on revenue, which is inherently stagnant given state caps on tuition rates and dependence on SSI

## Cost Reductions:

- ▶ UA has responded with a variety of cost reduction efforts including wage freezes, outsourcings, reductions-in-force, debt refundings, and spending deferrals
- ▶ Actions to date have helped to nearly balance the annual budgets but have not gone far enough to comprehensively address the structural challenges faced. In FY16 alone these resulted in ~\$20m of cost savings

## FY17 Budget and Deficit:

- ▶ UA has budgeted an \$18M general fund deficit for FY17, which will be funded by general fund reserve balance (total GF unrestricted reserve balance was ~\$66M as of 6/30/2016)
- ▶ The FY17 budgeted deficit would have been \$30M if not for \$12M of personnel savings and debt refunding recently implemented
- ▶ If recent trends continue and no action is taken, the annual deficit could grow significantly and create even greater challenges in the near term
- ▶ UA will need to take action now to invest in a strategy that will stabilize enrollment and retention, maximize revenue, and align costs with the student population

## University Response:

- ▶ UA is implementing a transformation plan to stabilize, invest, and grow
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# Our approach to UA assessment

## General Fund & Auxiliary Funds

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### Current state assessment

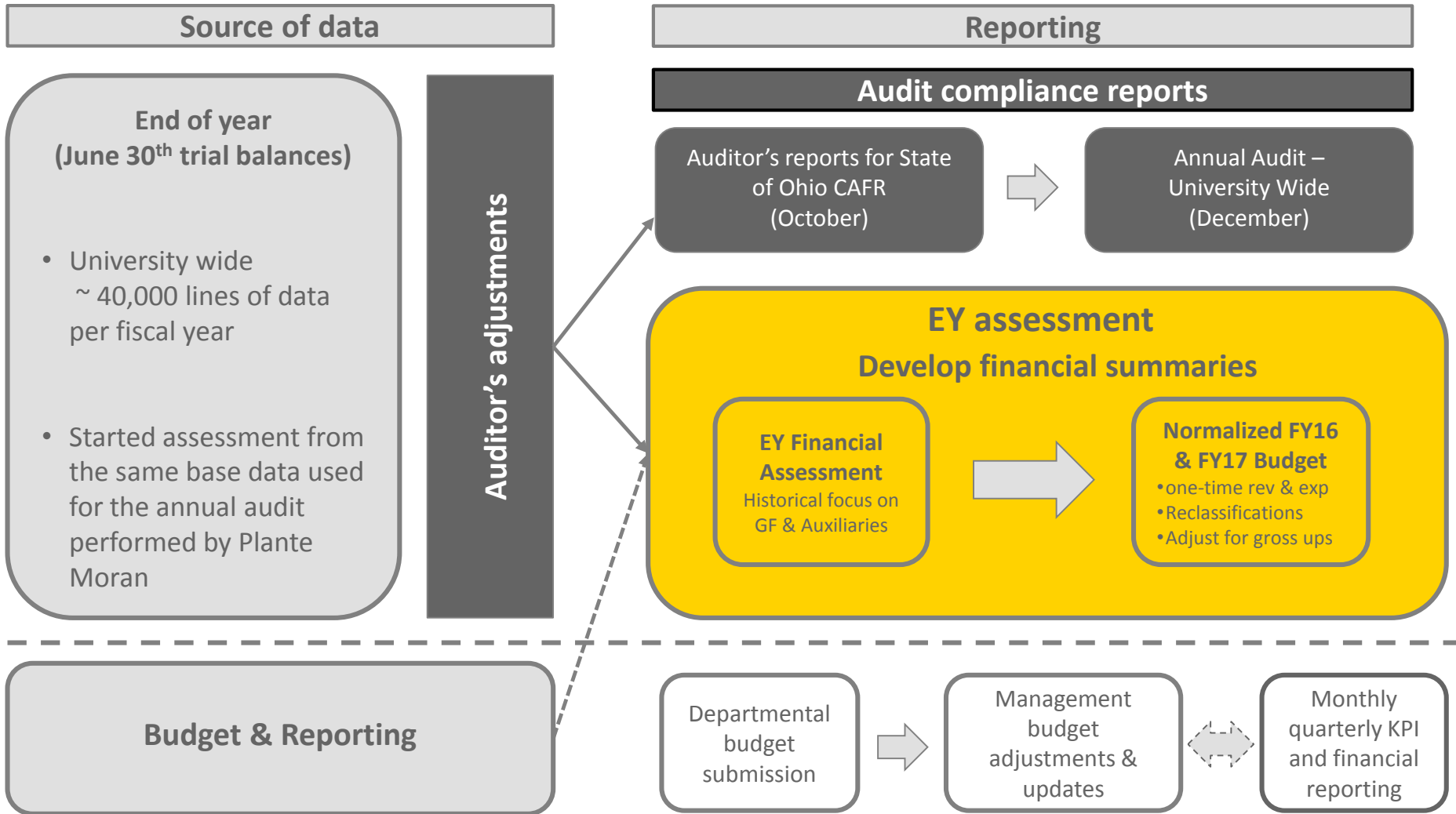
- ▶ Interviews with key university personnel
- ▶ 5-year historical financial trends and analysis
- ▶ Impact of cost reduction initiatives implemented to date
- ▶ Impact of auxiliaries on general fund
- ▶ Key takeaways based on latest trends

### Normalized FY16 and FY17 budget

- ▶ Assessment of normalized run-rate for FY16 and FY17
- ▶ Analysis of current FY17 budget based on activity to date and historical performance
- ▶ Understand key risks and opportunities to FY17 budget
- ▶ Develop consolidated financial summaries

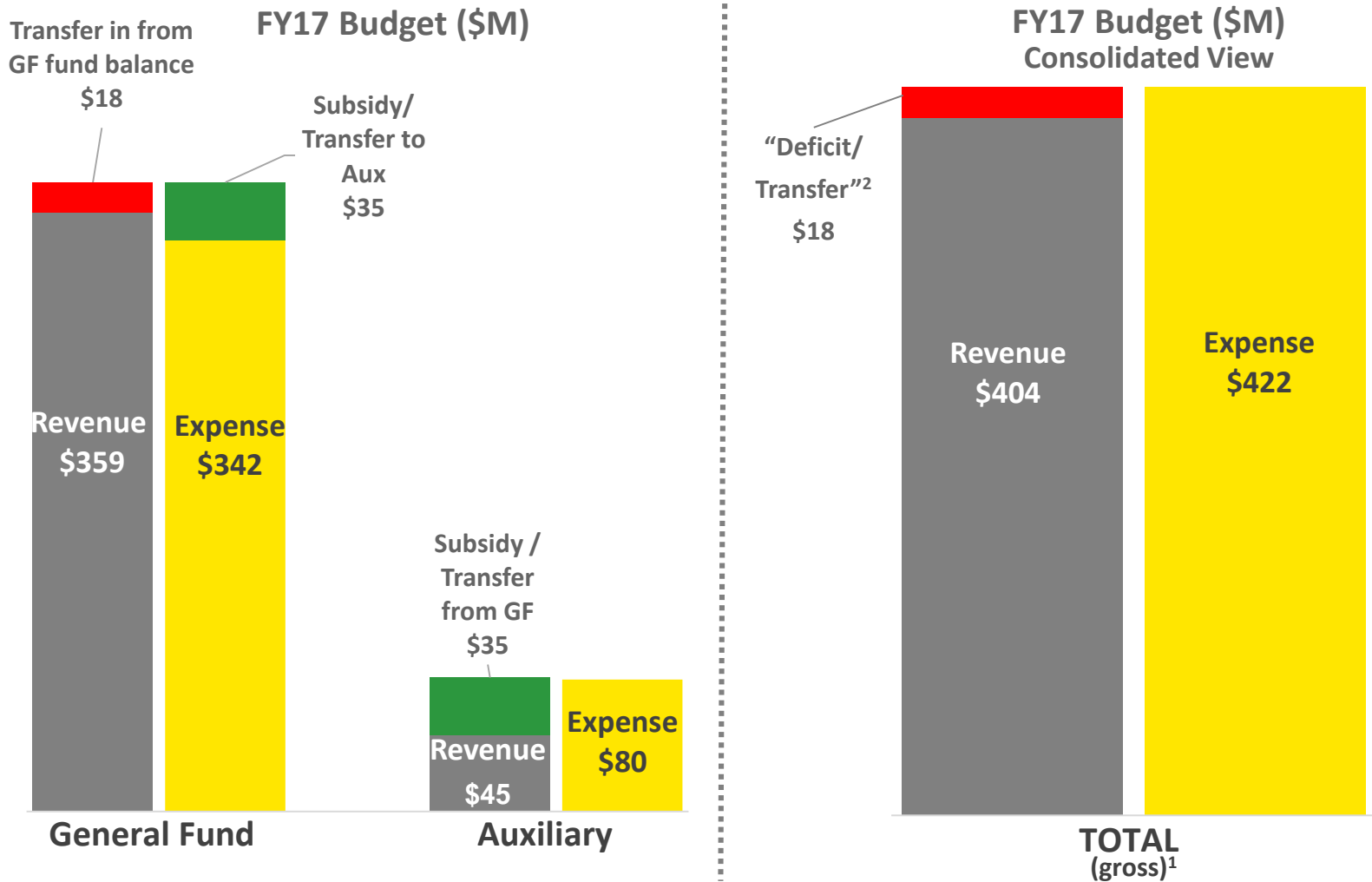
# EY's assessment

Develop unaudited financial summaries using data provided by the University, including auditor's adjustments and approved budget



# General Fund & Auxiliaries Focus

This analysis is focused on a combined view which includes the General Fund as well as the impact of the auxiliary funds and eliminates “transfers/subsidies” between various funds

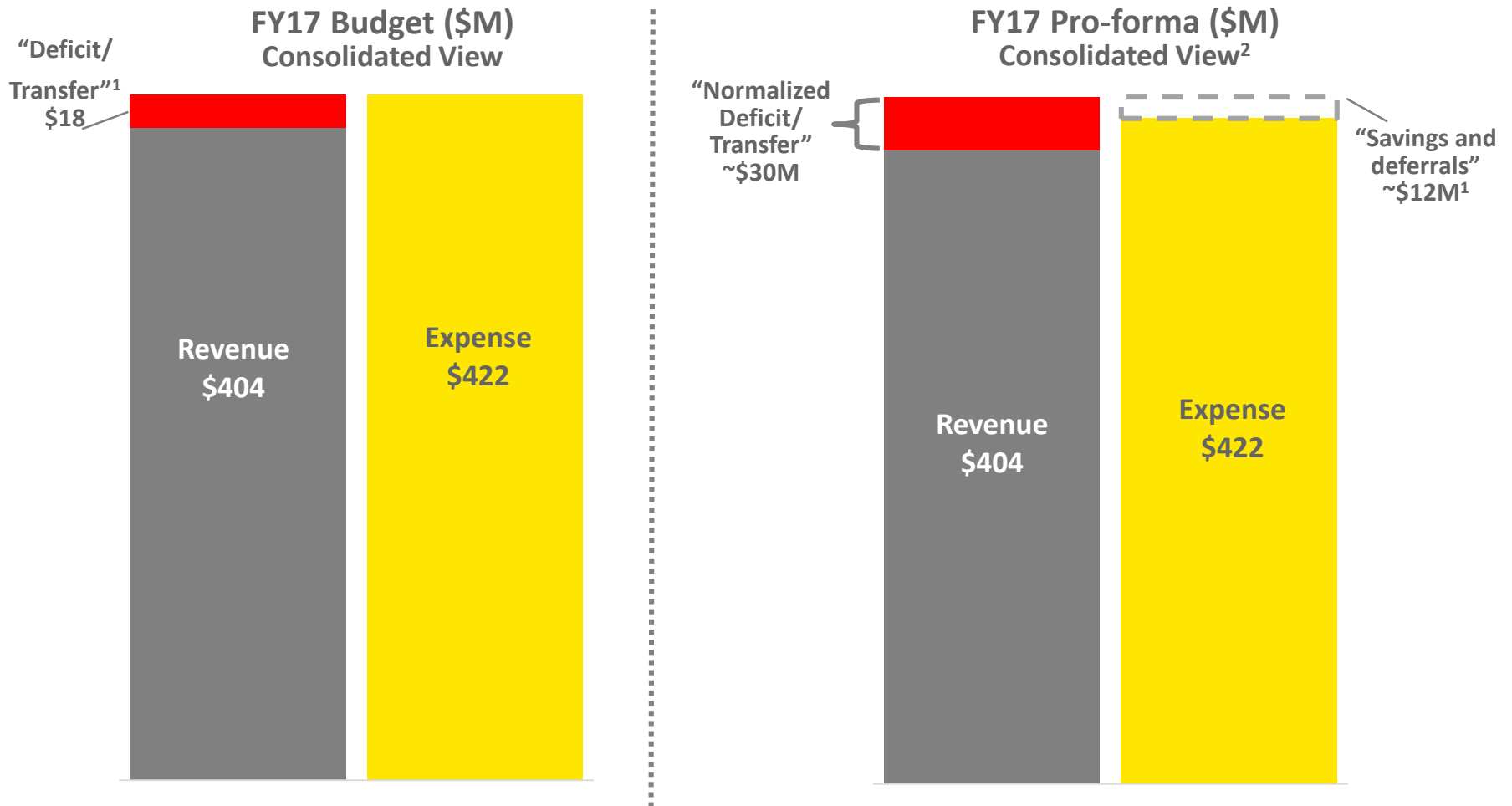


<sup>1</sup> Revenues above are presented consistent with the budget (i.e. gross before scholarships and remissions); All scholarships and remissions are included in expenses

<sup>2</sup> Deficit is funded by transfer from General Fund reserve balance

# General Fund & Auxiliaries Focus

FY17 budgeted deficit of \$18M would have been even greater if not for the recent elimination of open positions and one-time savings from debt refunding

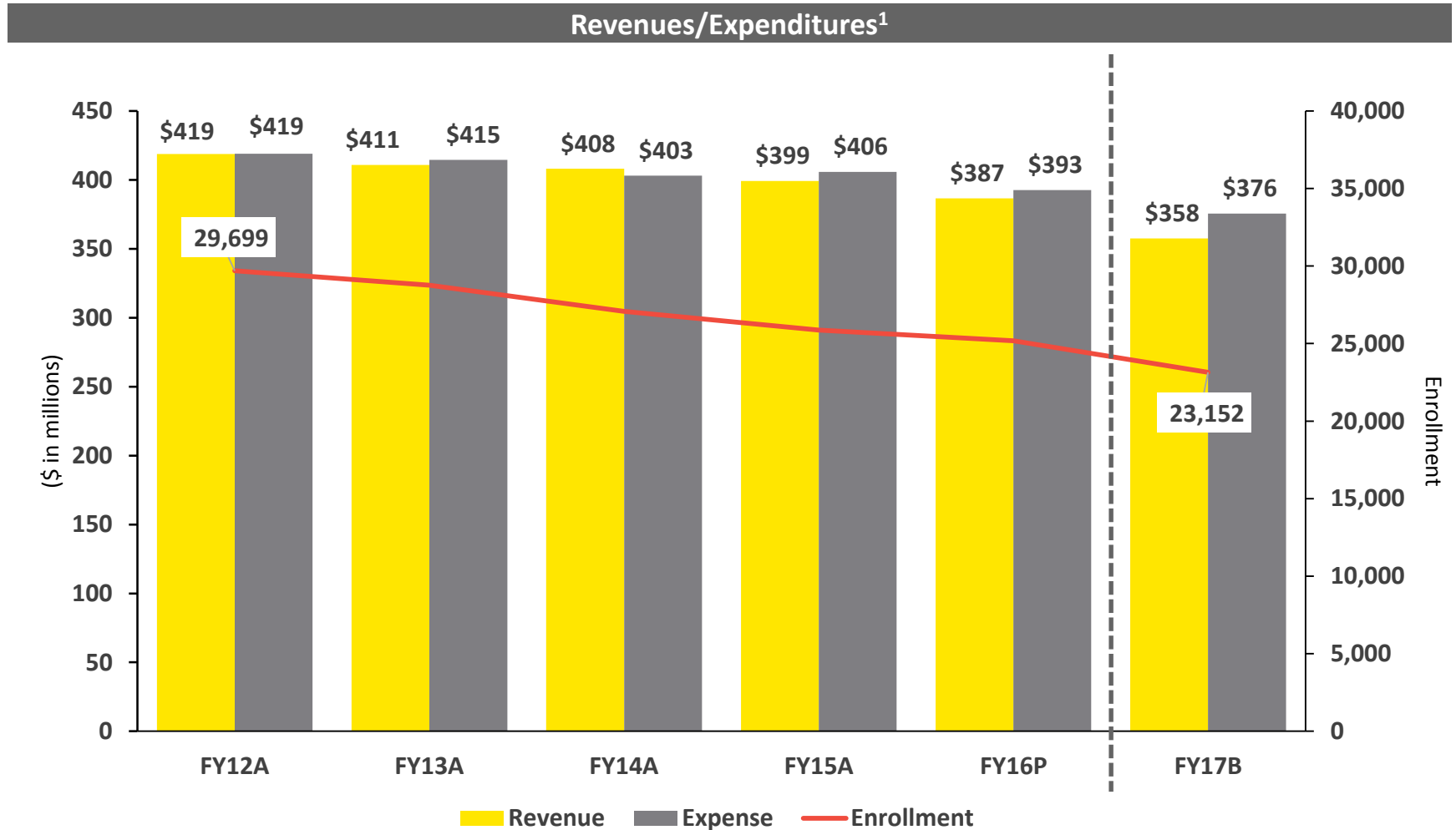


<sup>1</sup> Deficit is funded by transfer from General Fund reserve balance

<sup>2</sup> "Savings and deferrals" include a one-time debt service reduction in FY17 due to FY16 bond refunding (debt service will increase by \$7m by FY19) and a ~\$5m elimination of open positions which will require management review at the beginning of FY18.

# Historical Financial Trends

Without University action, the negative revenue trend is expected to continue driven primarily by enrollment losses, while contractual obligations will cause expenditure growth beyond FY17

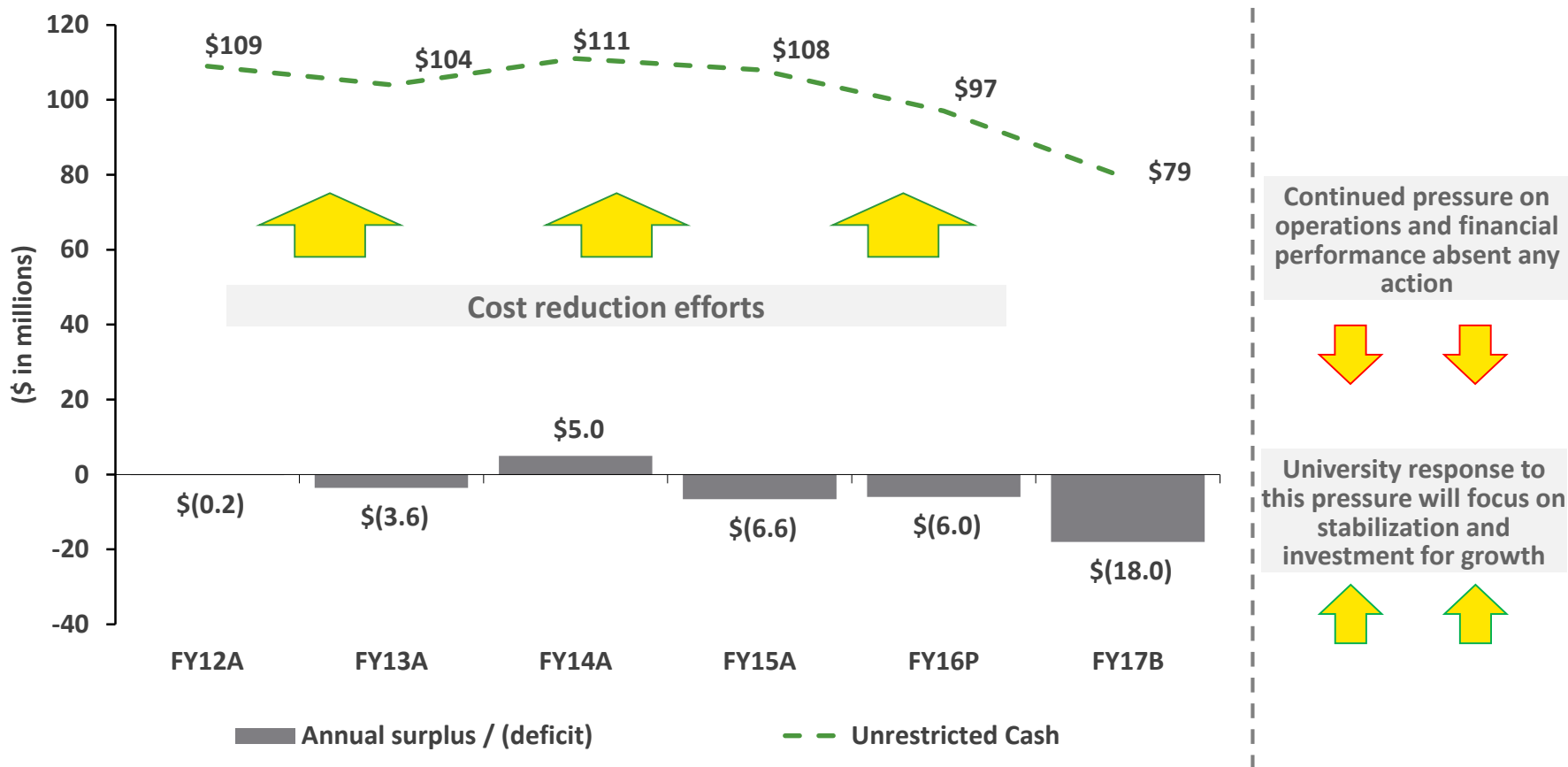


<sup>1</sup> Revenues are shown net of undergraduate and athletic scholarships; stipends and remissions are included in expenses



# Historical Fund and Unrestricted Cash Balance Trend

If no action is taken, the annual deficit could grow significantly over the next couple of years due to declining revenue and expenditure growth. The University is implementing a transformation plan.



<sup>1</sup> Since UA uses cash pooling, the unrestricted cash balance is estimated based on preliminary analysis and subject to further review

# University response

The University is actively executing a transformation plan, focused on stabilization, investment, and growth

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## Stabilize

- ▶ Increase student retention
- ▶ Improve graduation rate
- ▶ Optimize scholarship strategy and spending
- ▶ Pursue early buyout options
- ▶ Optimize use of graduate assistantships
- ▶ Optimize class schedules and current program portfolio
- ▶ Increase fundraising
- ▶ Reduce expenses such as utilities/energy, travel, IT, procurement and others

2

## Invest

- ▶ Invest in retention through additional advising support for students
- ▶ Invest in flexible programming options (evening/weekend/online) to attract students
- ▶ Hire resources to conduct outreach and attract international students
- ▶ Hire transformation leader to oversee implementation of key initiatives
- ▶ Focus on fundraising growth
- ▶ Invest in reporting and analytics to support management review and decisions

3

## Grow

- ▶ Grow enrollment
  - Freshmen (in-state and out-of-state)
  - Adult (“non-traditional”) students
  - Transfer students
  - International students
- ▶ Grow partnerships with employers
- ▶ Grow endowment
- ▶ Strengthen partnerships with community colleges

# Historical highlights

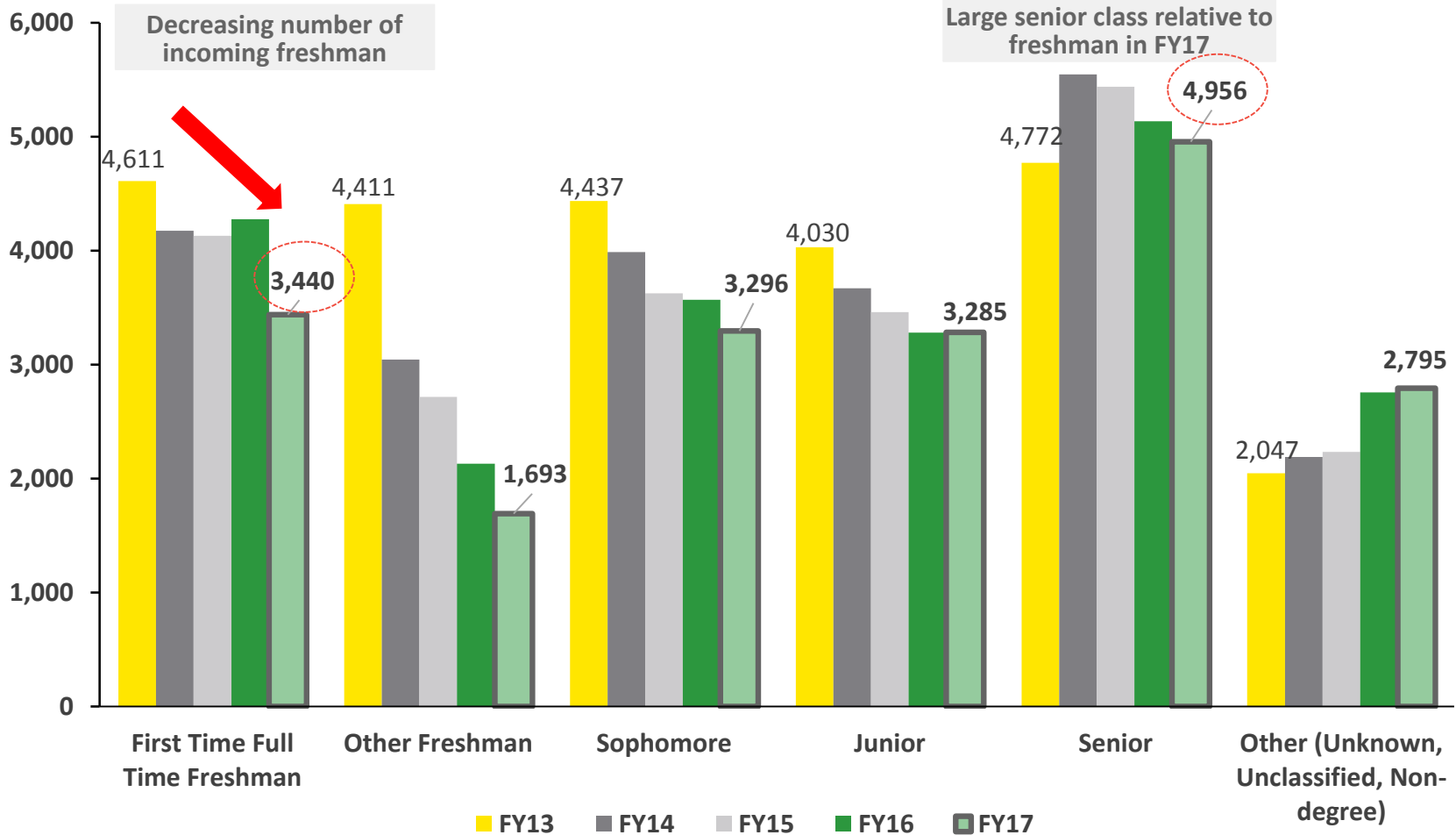
## General Fund & Auxiliary Funds



# Enrollment trend - Undergraduate

Enrollment has been trending downward since FY12, especially at the freshman and sophomore levels making it challenging for UA to replace larger senior classes

Actual Fall Enrollment<sup>1</sup> – Undergraduate Only

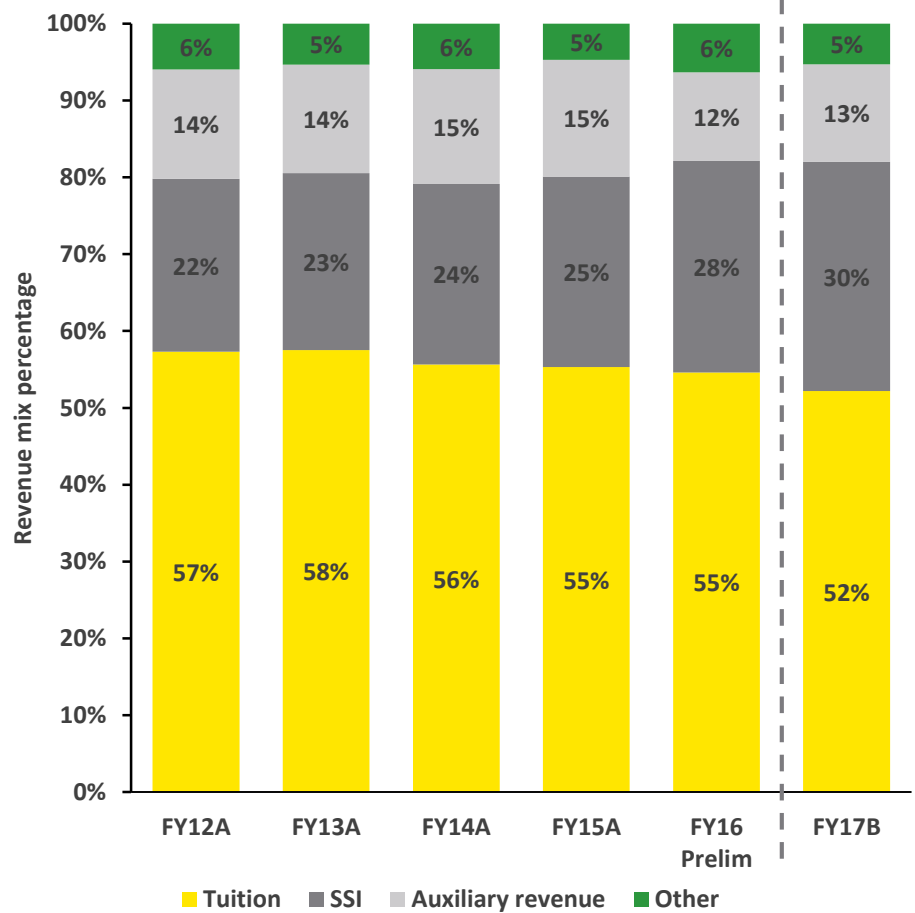
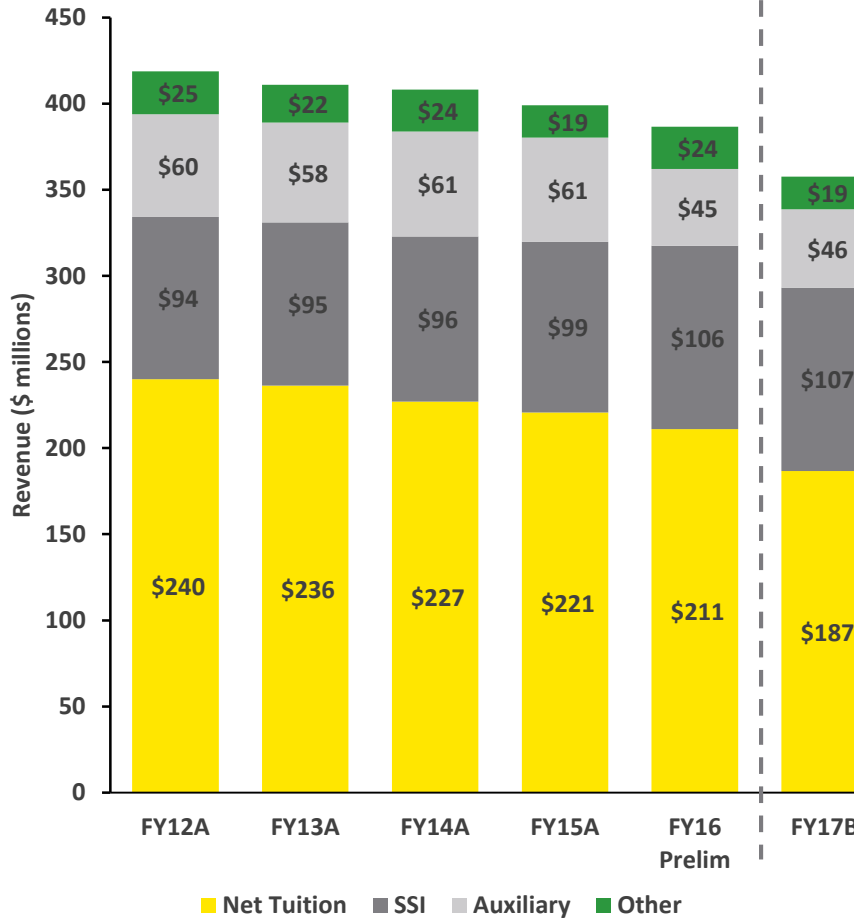


<sup>1</sup> Extract from UA fall enrollment data; categorizations based on preliminary analysis and subject to further review

# Historical Revenue Mix

Revenue decreases have been concentrated in tuition due to declining enrollment and increases in scholarships

Revenue Components<sup>1</sup>



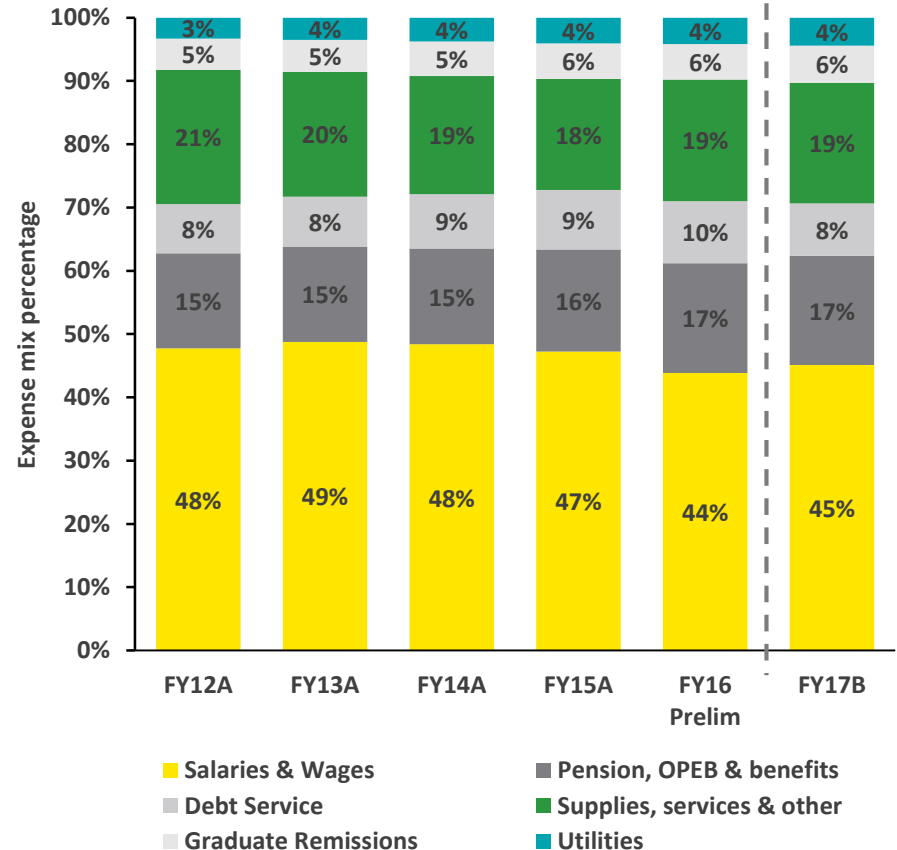
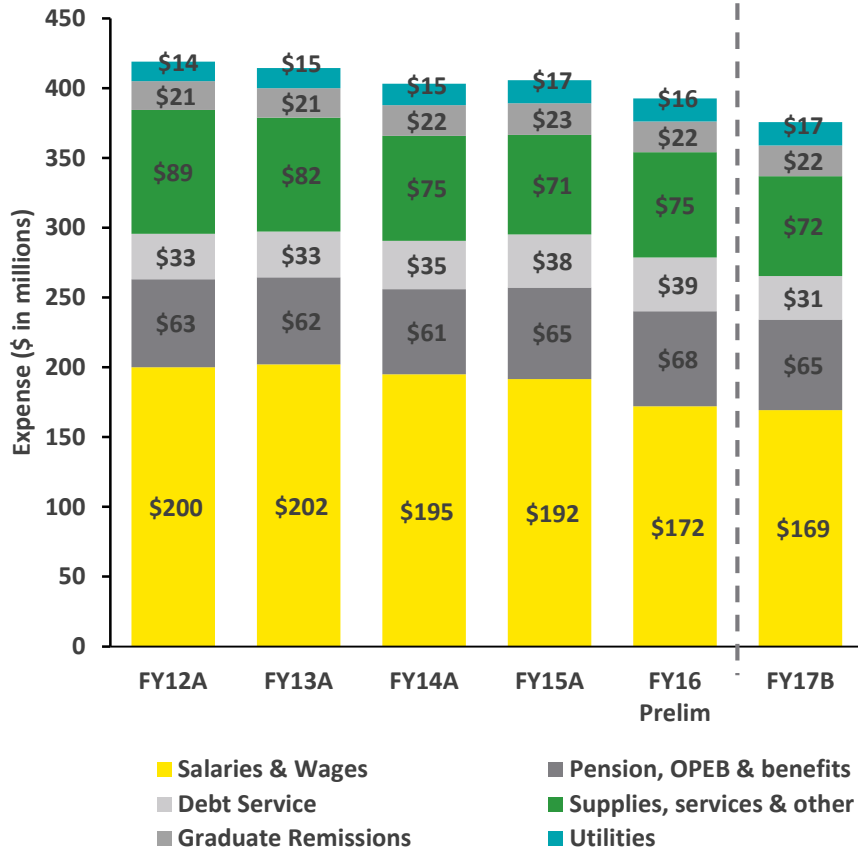
<sup>1</sup> Tuition revenue is shown net of undergraduate and athletic scholarships; all stipends and remissions are included in expenses



# Historical Expenditure Mix

Cost reduction strategies have helped to manage cost growth in recent years but have typically lagged losses in enrollment and revenue

## Expense Components<sup>1,2</sup>



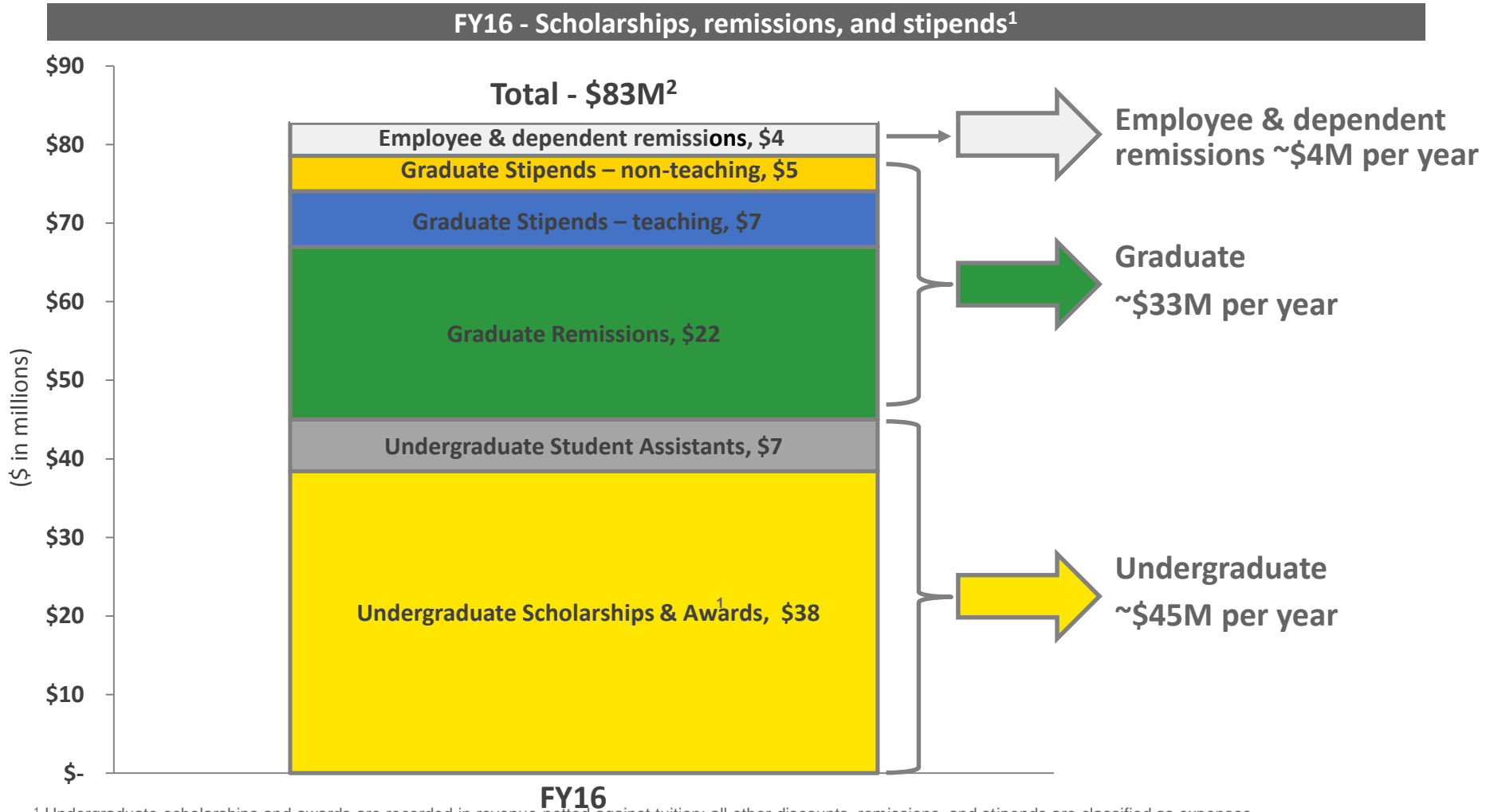
<sup>1</sup> Salaries & Wages – includes graduate and undergraduate stipends

<sup>2</sup> Supplies, Services, & Other – includes travel, IT & communications, equipment (classroom, lab, auxiliary operating supplies), marketing, maintenance, and net transfers

<sup>3</sup> Pension, OPEB & Benefits – includes pension, health benefits/life - active, OPEB – retiree dependent, and other fringe benefits excluding graduate remissions shown separately

# Tuition Discounts and Stipends

Tuition discounts/remissions, assistantship wages, and stipends had an \$83M impact on FY16 financial results

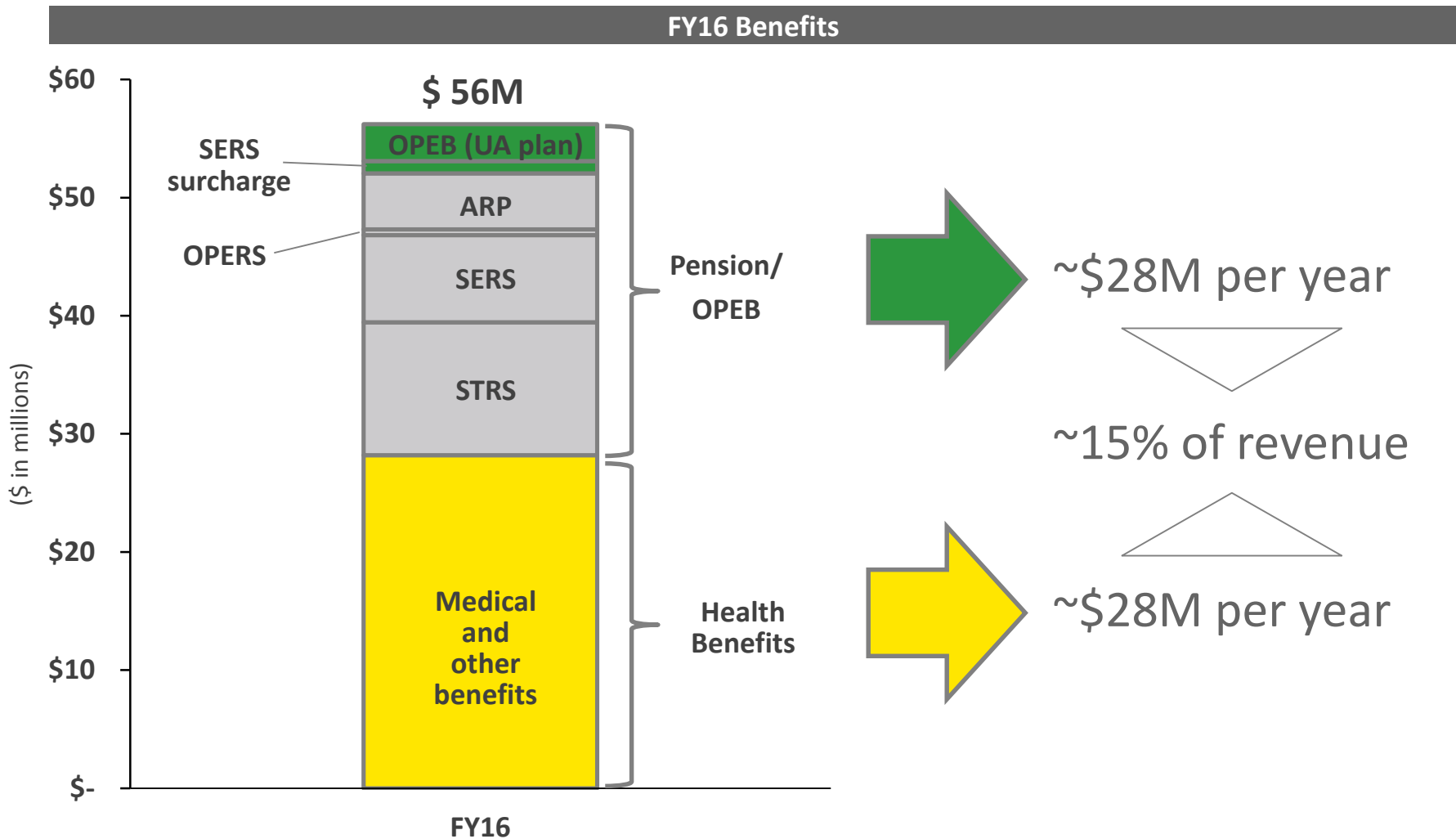


<sup>1</sup> Undergraduate scholarships and awards are recorded in revenue netted against tuition; all other discounts, remissions, and stipends are classified as expenses

<sup>2</sup> Does not take into account impact on SSI, these enrollments may generate SSI revenue

# Pension & Benefits Expenditures

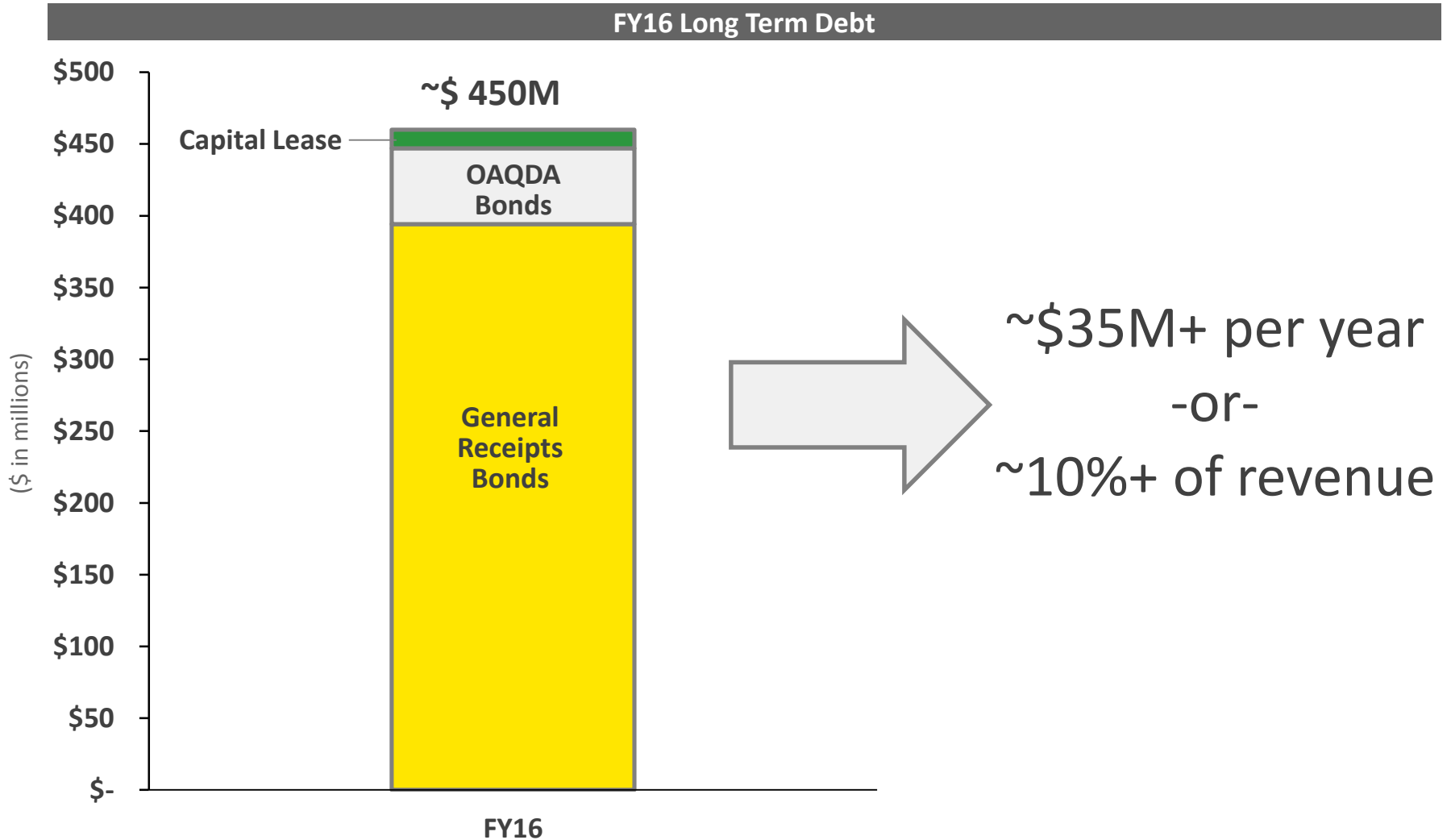
Pension and benefits payments combined are ~15% of revenues and are split about 50/50 between Pension/OPEB and health benefits





# Long Term Debt

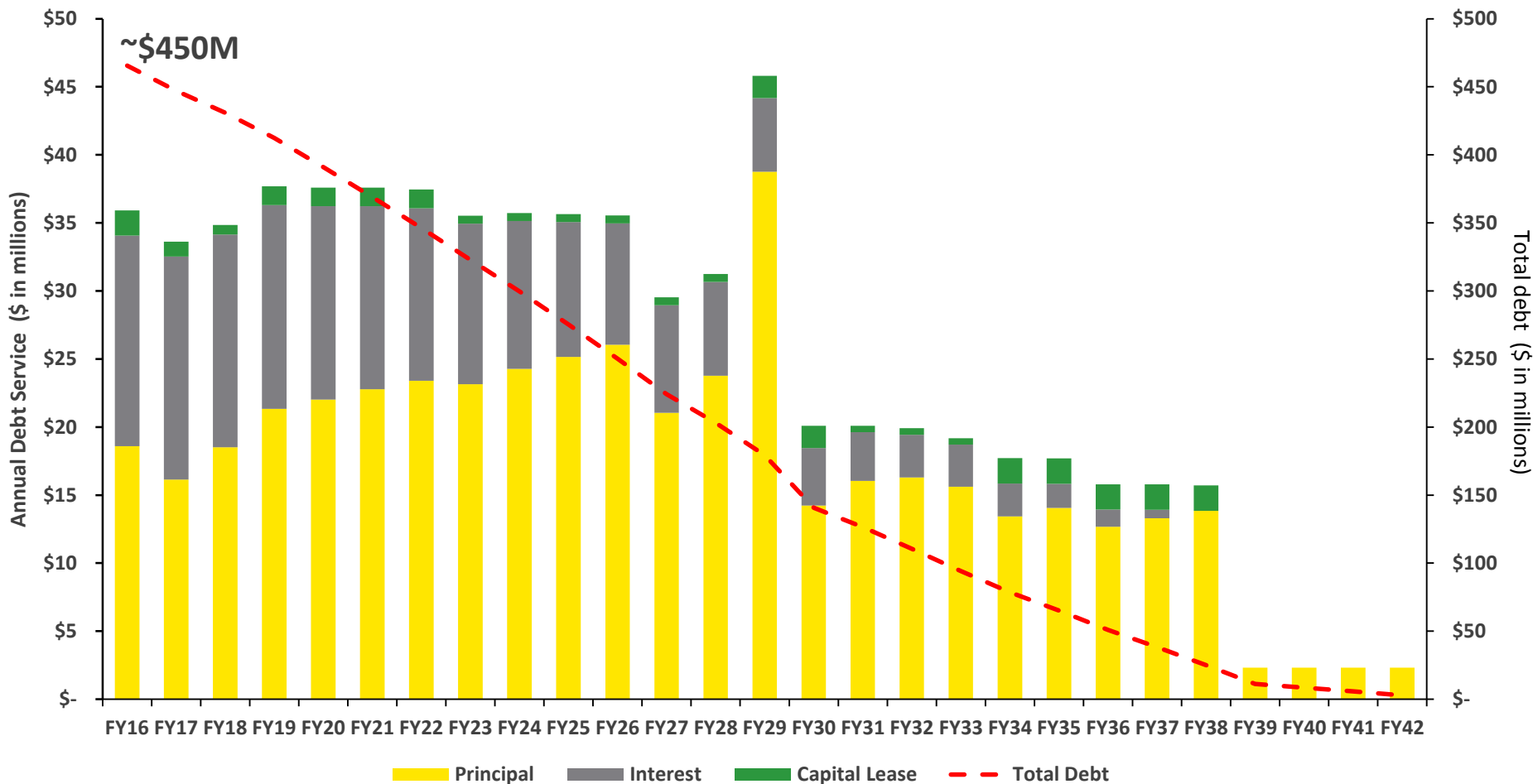
UA has ~\$450M of long-term obligations including bonds and capital leases, which ties up \$35M-\$40M per year of revenues



# Total Debt Service Requirements

The debt maturities are gradual over the next 25+ years with annual debt service amounts around ~\$35M per year for the next 10 years

## Debt Amortization



Source – debt amortization schedules provided by management



# Appendix

## General Fund & Auxiliary Funds



# Acronym key

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- ▶ UA: University of Akron
- ▶ SSI: State Share of Instruction
- ▶ UG: Undergraduate
- ▶ Grad: Graduate
- ▶ OPEB: Other post employment benefits
- ▶ ARP: Alternative Retirement Plan
- ▶ SERS: State Employee Retirement System
- ▶ STRS: State Teachers' Retirement System
- ▶ OPERS: Ohio Public Employees Retirement System
- ▶ OAQDA: Ohio Air Quality Development Authority
- ▶ Auxiliaries: Athletics, Residence Life & Housing, EJ Thomas Performing Arts Hall, Dining, Recreation & Wellness, Student Union, Parking, Telecom, and Wayne Student Union

# General Fund + Auxiliary Financial Summary<sup>1</sup>

(\$ in millions)	Actuals				Prelim FY16	FY17B
	FY12A	FY13A	FY14A	FY15A		
<b>Revenue</b>						
Gross tuition & fees	\$ 269.8	\$ 269.8	\$ 261.4	\$ 257.5	\$ 249.6	\$ 233.2
Scholarships	(29.9)	(33.5)	(34.4)	(36.8)	(38.5)	(46.4)
<b>Net tuition &amp; fees</b>	<b>240.0</b>	<b>236.3</b>	<b>227.0</b>	<b>220.7</b>	<b>211.1</b>	<b>186.7</b>
State share of instruction	94.2	94.7	95.9	98.9	106.3	106.5
Other revenue	84.6	79.9	85.1	79.4	69.1	64.4
<b>Total revenues</b>	<b>\$ 418.8</b>	<b>\$ 410.9</b>	<b>\$ 408.1</b>	<b>\$ 399.1</b>	<b>\$ 386.5</b>	<b>\$ 357.6</b>
<b>Expenses</b>						
Salaries & wages	(200.1)	(202.2)	(195.0)	(191.7)	(172.0)	(169.4)
Fringe benefits & remissions	(30.0)	(30.5)	(27.9)	(29.0)	(27.3)	(28.8)
Pension	(26.7)	(26.9)	(27.8)	(27.1)	(24.9)	(27.0)
Medical/life & other active	(25.2)	(21.6)	(24.2)	(28.8)	(34.8)	(27.9)
Supplies & services	(57.2)	(56.0)	(51.6)	(53.9)	(56.2)	(52.0)
Purchased utilities	(13.9)	(14.5)	(15.3)	(16.5)	(16.4)	(16.6)
Other	(26.1)	(23.1)	(20.7)	(17.9)	(11.2)	(16.0)
<b>Operating expenses</b>	<b>(379.2)</b>	<b>(374.8)</b>	<b>(362.3)</b>	<b>(364.9)</b>	<b>(342.7)</b>	<b>(337.6)</b>
OPEB (retiree dependent medical/life)	(1.7)	(4.3)	(3.2)	(3.1)	(3.1)	(3.1)
Debt service	(32.5)	(32.7)	(34.6)	(38.1)	(38.6)	(31.1)
<b>Debt &amp; OPEB expenses</b>	<b>(34.3)</b>	<b>(37.0)</b>	<b>(37.8)</b>	<b>(41.3)</b>	<b>(41.8)</b>	<b>(34.1)</b>
Net transfers in/out	(5.5)	(2.6)	(2.9)	0.6	(8.0)	(3.8)
<b>Total expenditures &amp; transfers</b>	<b>\$ (419.0)</b>	<b>\$ (414.5)</b>	<b>\$ (403.1)</b>	<b>\$ (405.7)</b>	<b>\$ (392.5)</b>	<b>\$ (375.6)</b>
<b>Net surplus / (deficit)</b>	<b>\$ (0.2)</b>	<b>\$ (3.6)</b>	<b>\$ 5.0</b>	<b>\$ (6.6)</b>	<b>\$ (6.0)</b>	<b>\$ (18.0)</b>

<sup>1</sup> Revenues and expenses include Auxiliaries; "Accumulated unrestricted fund balance" represents General Fund only. Due to rounding, numbers presented above may not add up precisely to the totals.

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