

**Update on Brown's Finances**  
**Fall, 2009**

# Topics

- FY09 Operating Results
- Update on Endowment
- Corporation Input
- Implications for Financial Plans
- FY11 Budget Process

# Better than Expected FY09 Results

(\$ in thousands)

	<u>Revenue</u>	<u>Expense</u>	<u>Contribution to/ Use of Reserves</u>	<u>Original Plan for Reserves</u>
<b>University E&amp;G</b>	\$511,839	\$509,466	\$2,373	(\$3,045)
<b>Biology &amp; Medicine</b>	\$124,013	\$124,344	(\$331)	(500)
<b>Auxiliaries</b>	\$76,080	\$72,402	3,678	3,052
<b>Total University</b>	\$711,932	\$706,212	\$5,720	(\$493)

# FY09 Preliminary Operating Results

## E&G Results:

- Revenues were \$511.8 million vs. \$509.1 budgeted, an improvement of \$2.7 million or .5%. Improvement largely due to more students.
- Total expenditures were \$508.8 million vs. a budget of \$511.5, an improvement of \$2.7 million or .5%.

**The E&G ended the year with a net surplus of \$2.4 million vs. a planned \$3.0 million use of reserves.**

# FY09 Preliminary Operating Results

## Bio Med Results:

- Revenues were \$124.9M, \$4.40M or 3.4% below budget
- Expenditures were \$125.2M, \$4.57M or 3.5% below budgeted levels

**Bio Med ended the year with a deficit of \$331K vs. a budgeted deficit of \$500K.**

## FY09 Preliminary Results

Total cash gifts were excellent in FY09. A number of pledge payments for the pool, the Alpert Medical School, the Creative Arts Center, and the Fitness/Aquatics Center helped us achieve total gifts of \$192 million.

- Gifts to capital were \$60.9 million vs. a fundraising goal of \$30 million
- Gifts to endowment were \$44.2 million vs. a fundraising goal of \$50 million
- Gifts to current use OR undesignated were \$77 million vs a fundraising goal of \$60 million

## Balance Sheet: Endowment

- FY09 endowment investment returns (7/1/08-6/30/09) were -23.1%, with the bulk of the decline experienced in the first six months of the fiscal year.
- The total market value of the endowment will be -26.6% reflecting the negative total return, the FY09 payout (\$132 mil) and new gifts (\$44 mil).
- Between July 1, 2008 and June 30, 2009, the endowment went from \$2.8 billion to \$2.0 billion. Brown lost \$740 million.

# Corporation Review and Input

- In early September, the Administration reviewed the FY09 year end results as well as the assumptions about the recovery with a sub committee of the Corporation.
- They remain extremely cautious and recommended that we proceed with the following:
  - Assume endowment returns of 0% in CY09 and +5% per year for the next 4 years
  - Plan on decreasing the payout in FY11 by 20%.
  - Continue to work on identifying ways in which to reduce the FY11 projected deficit of ~\$30 million.
  - Continue to monitor all.....change WILL happen.

# The E&G Financial Plan

Based on May 09 assumptions, we projected that E&G gross revenues would grow by 2% per year between FY10 and FY14. As a result, we would need to contain our overall growth to 2% per year.

May 08 Plan - Projected E&G/Affiliate Expenses	\$695 million
E&G Revenue Projections at 2% *	<u>\$600 million</u>
<b>Reductions Needed to Balance Budget in FY14</b>	<b>~\$95 million</b>
Projected Expenses Based on FY10 Budget	\$660 million
Revised E&G Revenue Projections at 2%	<u>\$600 million</u>
<b>Remaining Reductions Needed to Balance in FY14</b>	<b>\$60 million</b>

\*Assumed endowment returns of -5%, +5%,+5%,+5%; payout declines; net tuition increases by 1.4% per year and Watson, JCB, and other affiliates reduce expenses in response to decreased endowment.

# The E&G Financial Plan

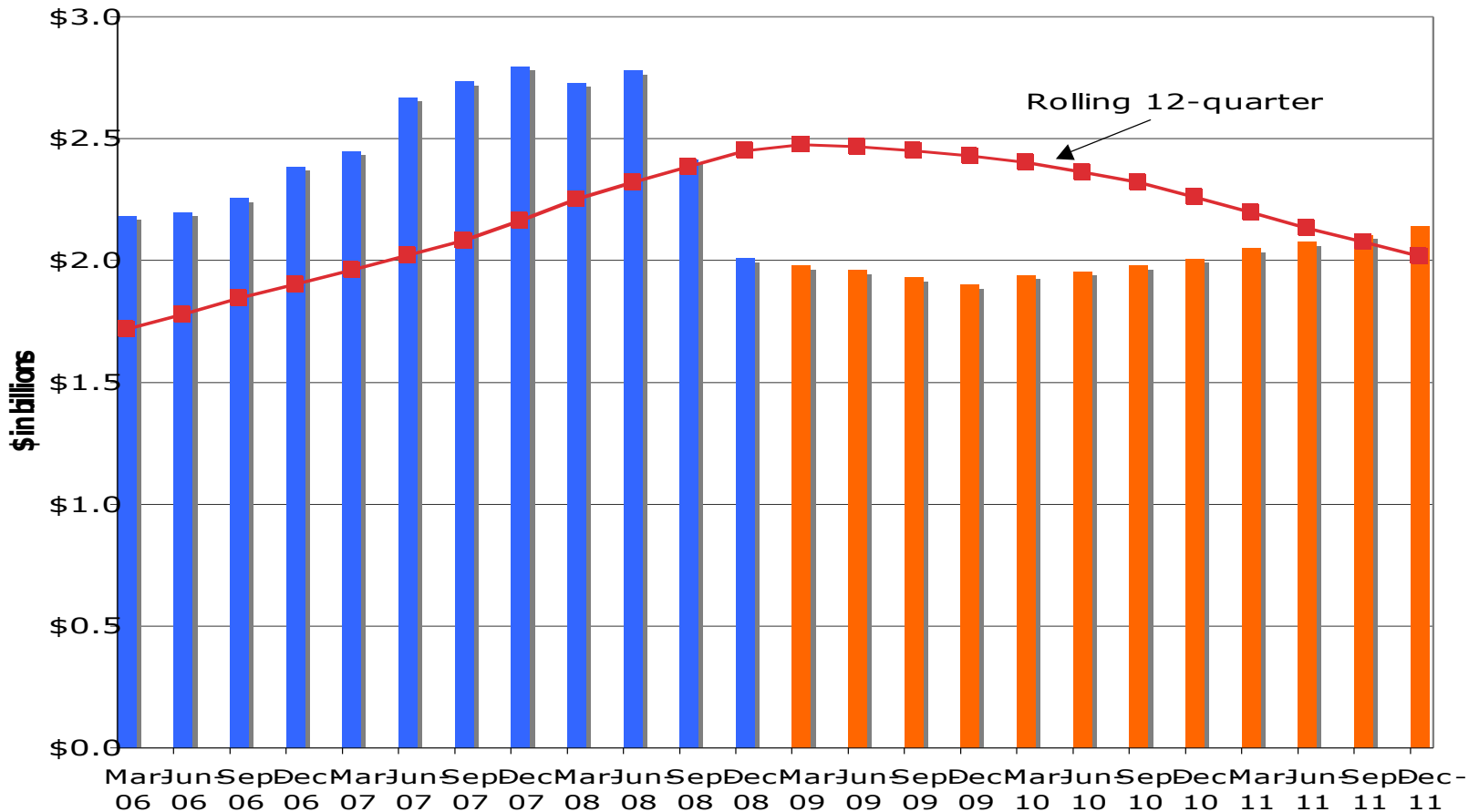
The E&G financial plan includes more than \$100 million of budget increases between FY10 and FY14 for critical priorities: financial aid, compensation, facilities, research.

To add \$100 million for these or other priorities, we must **continue to raise funds** (including \$40-50 million of new endowment per year) **and make reductions in other areas.**

# Projected Endowment Market Value

- Even with a rebound in endowment growth, the 12-quarter average will be lower for FY11, FY12 and FY13.
- The chart below assumes a 0% return in calendar 2009 then +5% thereafter

**Projected Endowment Market Value and 12-quarter Average**



# Projected Endowment Payout Increases

Revised Projections Per Corporation  
0% return in calendar 2009 then 5% thereafter

<b>Large payout reduction in FY11 and limit payout to 5.5% of 12-Quarter Average</b>			
	<b>Increase in Payout</b>	<b>% of 12Q average</b>	<b>% of Projected Current MV</b>
<b>FY10</b>	-1.0%	5.5%	6.5%
<b>FY11</b>	-20.0%	4.7%	5.7%
<b>FY12</b>	0.0%	5.3%	5.7%
<b>FY13</b>	-7.5%	5.4%	5.3%
<b>FY14</b>	0.0%	5.5%	5.3%

**FY10 E&G income: \$110 million**  
**FY11 projected E&G income: \$89 million**  
**FY14 projected E&G income: \$82 million**

# The E&G Financial Plan

To end up with \$630 million in E&G revenue in FY2014 vs. the currently projected \$600 million, Brown would need:

- Endowment returns of 5% in CY2009, 15% in 2010 and 2011 and 10% thereafter vs. the current projections; OR
- Net tuition increases of 5.1% per year vs. 1.4% currently projected; OR
- Sponsored support growth of 25% per year vs the currently projected 4% per year; OR
- An unexpected gift to endowment of \$600 million

We remain hopeful that some combination of these futures is realistic.

# FY11 Budget Planning

- Brown must identify ways to reduce the FY11 projected deficit by ~\$30 million as part of the FY11 budget process.
- At this point in time, we do not intend to reduce our commitment to faculty, financial aid or graduate students.
- Some institutions are achieving budget reduction targets with across the board cuts.
- To achieve the best results for Brown, we intend to be more strategic.
  - **The University Resources Committee** will focus on revenue enhancements, modifications to planned increases and operating budget reductions.
  - **The Organizational Review Committee** will focus on possible organizational changes.

# Revised Capital Plan

- Proceeding with Robert Campus Center. Completion by fall 2010. Mail room now a student activities room.
- RI Hall now the new Joukowsky Institute for Archeology and the Ancient World
- Planning underway for Metcalf Chem renovations to serve as the home for Mind Brain Behavior
- 222 Richmond St. design underway to become the Medical Education Building
- Business continuity, new IT storage capacity, new communications center, critical renewal and code projects all underway
- Design for smaller fitness center attached to a new aquatics center in process. F&D review in October. Plan to use the “bubble” for strength and conditioning
- Will spend \$5 million on IT projects that will streamline business processes and minimize risks. Some projects will come out of business process focus groups.
- Deferred dorm renewal and HR project.

# FY11 E&G Deficit Reduction Target

**Remaining Reductions Needed by 2014** **\$60 million**

**Target Reductions for FY11** **~\$30 million**

## Preliminary Targets

## FY11

Revised Capital Plan

\$5

Org Review/Reorgs

\$14

Operating Expenses

\$5

Other :

\$6

increased revenues

slower rates of growth

**Total**

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**\$30 million**

# The University Resources Committee

This year, the URC will focus on:

- Undergraduate enrollment, financial aid and tuition and net tuition
- The resources necessary to enhance the excellence and competitiveness of our doctoral programs
- Compensation for faculty and staff
- Continuing academic initiatives aimed at strengthening key departments and programs
- Pressures in the library and information technology, and other areas identified by the NEASC team as priority areas for attention and possible investment.
- The way in which capital/IT projects will affect the FY11 budget
- Operating expense reductions

The URC will make final budget recommendations to the President before winter break.

# Organizational Review

- The Organizational Review Committee will oversee a campus wide effort designed to ensure that our administrative operations are optimally organized to support our highest priorities.
- ORC teams will be appointed mid Oct. Teams will solicit input and get feedback re different organizational designs. Teams will be mindful of existing vacancies. They will make their recommendations - with anticipated implications - to the full ORC in December.
- The ORC will forward the team recommendations to the President for her consideration by winter break.

# Functions Being Reviewed

- Administrative Department Support: Finance, Human Resources and Administrative
- Academic Department Support: Research, Finance, HR and Administrative
- Information Technology
- Graphics, Web, and Communications
- Student Services and Programs
- Events

# Departmental Reviews

- Advancement
- Library Operations
- Athletics
- Office of Continuing Education
- Facilities and Facilities Utilization
- Auxiliary Units

# Areas Not In Scope

- Academic Programs
- Financial Aid
- Student Advising
- Library Special Collections
- Research Funded Staff

# Brown's Response:

## What Would Failure Look Like?

- Erosion of PAE accomplishments
- Capacity of mission diminished
- Compensation falls below market
- Demoralized staff
- No fundamental changes
- Inter-group resentment (staff, students, faculty)
- Loss of sense of community

# **Brown's Response:**

## **What Will Success Look Like?**

- Brown is a well run academic, teaching, and research institution
- Faculty and academic mission are better supported
- Empowered culture that is responsible and accountable
- Administrative inefficiencies eliminated; more innovation
- Less bureaucracy
- Brown is characterized as a great place to work
- University more solvent
- Increased employee engagement

# FY11 Budget

- The President will combine information from the URC and the ORC and determine what she believes is in the best interest for Brown. She will then present a budget to the Corporation in February.
- The Corporation will make the final approval.
- Implementation will begin in the spring.

# Economy's Impact on the Division of Biology and Medicine

- The economic crisis is having a different impact on the Division. The Division is more dependent on sponsored funding as a revenue source and less dependent on endowment, current use gifts and student fees than the E&G.
- Last spring, the Division restructured its administration and changed its plans for the Medical Education Building (renovation vs a new facility). The capital cost and carrying costs will be substantially less than previously planned. Combined with the freeze on salary increases, the organizational restructuring and lower facilities carrying costs reduced the Division's future operating expenses by approximately \$10 million.
- The Division is having great success in winning stimulus package research awards. The key financial challenge for the Division in FY11 will be medical student financial aid: endowment income losses will be need to be covered by reallocations/new fundraising

# Economy's Impact on Affiliates

- The Watson Institute, the John Carter Brown Library, and the Annenberg Institute have discrete sources of funds. They do not receive unrestricted support from the University. However, they are highly dependent on restricted endowment income.
- Each affiliate will work with the Provost's Office and the Financial Administration on developing their FY11 budgets in light of the anticipated decline in the endowment payout. Any budget reductions and organizational changes will be done in a manner that is consistent with University standards.

## Other Information

- We have been involving staff from across the campus in a review of key business processes. Great participation and consensus around what needs to be fixed. CIS, Finance, HR and OSP will work together to resolve.
- We intend to hold at least two business process focus groups for students this fall.
- Service levels are being more closely managed. May see some changes

# Questions/Comments