FISCAL YEAR 2009 TOTAL UNIVERSITY CURRENT FUNDS BUDGET

Synopsis: Approval of the total University Current Funds Budget for FY2009 is proposed.

WHEREAS the State budget for FY2008 and FY2009, including funding levels for State institutions of higher education, has been enacted; and

WHEREAS fee increases for the Columbus and Regional Campuses for FY2009 have been approved at previous meetings of the Board of Trustees; and

WHEREAS estimated levels of resources and expenditures for the Columbus Campus, Regional Campuses and ATI have been approved at previous meetings of the Board; and

WHEREAS adjustments have been made updating revenue estimates and eliminating double counting of transfers among the various University units; and

WHEREAS the President now recommends approval of the Current Funds Budget for the total University for FY2009:

NOW THEREFORE

BE IT RESOLVED, That the University’s Current Funds Budget for FY2009, as described in the accompanying FY2009 Current Funds Budget Book, be approved, with authorization for the President to make expenditures within the projected income.
The Ohio State University Board of Trustees
Fiscal Affairs Committee
September 18, 2008

TOPIC:

FY 2009 Current Funds Budget

CONTEXT:

This is the final step in approval of the FY 2009 operating budget. There are no major changes since the Board of Trustees approved the FY 09 operating budget recommendations at the July Board meeting.

SUMMARY:

Included are the following:

- A summary of the Current Funds Budget (Attachment 1)
- A description of what is included in the budget red book (Attachment 2)
- Strategic Alignment (Attachment 3)
- Update on Cost Savings Initiatives (Attachment 4)
- A work list of emerging issues for FY 2009 (Attachment 5)
- What Happens Next (Attachment 6)

CONSIDERATIONS:

- Are the strategic drivers of the budget identified?
- Have the emerging issues for FY 2009 been presented?
- Is the calendar for the rest of FY 2009 clear?
- Is there any additional information the Fiscal Affairs Committee would like to have?

REQUESTED OF THE FISCAL AFFAIRS COMMITTEE:

Approval of the FY 2009 current funds budget.
Current Funds Budget Summary

Strategic Initiatives

Alignment

This budget covers all funding sources for all campuses and is aligned with academic priorities.

Financial Access

Resident undergraduate tuition is frozen at FY 2007 levels for the second year in a row. Lost income to the University will be offset by increases in state support. This budget also commits $78.1 million to undergraduate financial aid, an increase of $5.7 million over FY 2008 funding.

Competitive Compensation

Most colleges will reach compensation goals without reallocations. Some academic support units will need to reallocate in order to reach compensation goals.

Graduate Programs

$7.0 million of the Ph.D. level subsidy is set aside to support quality Ph.D. programs. During FY 2008, the Graduate School completed an assessment of the doctoral programs at Ohio State, which included the classification of the doctoral programs by indicators of quality, as well as the identification of university-wide issues, challenges and opportunities. The $3.6 million in increased fellowship support and $3.3 million to support the reduced tuition charges for students in the dissertation phase is expected to result in significant strengthening of graduate programs.

Financial Stability

Also included in FY 2009 is a $10 million Stability Reserve to help protect against economic uncertainty.
Additional Information

- Final revenue estimates for all funds, all campuses are just under $4.4 billion and planned expenditures are about $4.2 billion. This is less than the sum of the individual fund groups due to inter-fund transfers.

- FY 2009 State Support, including restricted line items, is scheduled to increase by 13.0% across all campuses. This is the third year in a row that state support has increased; however, resident undergraduate tuition increases continue to be frozen at FY 2007 levels as required by Amended Substitute House Bill 119, limiting general fund revenue growth. Columbus Campus general fund growth is expected to be 4.3%.

- The single largest fund group is now self-supporting auxiliaries, which accounts for 60.7% of the total budget for all campuses. The Health System alone accounts for 36.6% of the total budget.

- The Health System FY 09 budget includes $70.0M in cash for Medical Center investments. Days of Cash on Hand (all sources) is projected to grow 3.5 days to 56.4 days, which reflects a total cash increase of $28.6M.

- The Medical Center which includes the Health System, College of Medicine and the Ohio State University Physicians represents 44.5% of the total budget.

- This budget includes $9 million in one-time funds and $1 million in continuing funds to support Phase III of V of Targeted Investments in Excellence. The total commitment is $50 million over five years. This means discretionary funds for other investments will be limited.

- To ensure a successful beginning to the new Development Campaign, this budget includes a $750,000 increase in the Development assessment in order to help fund the new campaign. In addition, the Office of Development is budgeting $1.3 million in FY 08 carryover funds for the new campaign.

- Over $9 million is set aside for the continued installation of the new Student Information System (Phase III of V).

- An additional $0.10 per assigned square foot is being transferred to the University’s Maintenance and Renewal fund to address deferred maintenance needs. This will continue to be gradually increased until reaching at least $1.00 per ASF.

Office of Academic Affairs
Office of Business and Finance
August 28, 2008

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Summary of Information In Budget Red Book

Priorities

- Budget Context
- Academic Progress
- Financial Progress
- Budget Allocation Process
- FY 2009 Priorities

Revenue Summary

- State Support
- Student Fees
- Sponsored Research
- Internal Overhead and Service Charge
- Assessments
- Other Income
- Long-Term Investment Pool Distributions

Expenditure Summary

- Resource Allocation
- Changes by Category
- Changes in Colleges and Academic Support Units

Regional Campuses

- Budget Context
- Revenues and Expenditures

Multi-Year Commitments

- Multi-Year Commitments
- Financial Goals
- Conclusions

Tables and Appendices
Strategic Alignment

Summary of Operating Budget Priorities v. Trends in Higher Education

<table>
<thead>
<tr>
<th>Trend</th>
<th>Response</th>
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| • Dramatic changes in population of prospective students | ✔ Strong investment in financial aid  
                                                          ✔ Grow international programs |
| • New public policy proposals and political oversight | ✔ Engagement with University System of Ohio  
                                                          ✔ Focus on interdisciplinary research  
                                                          ✔ Streamline internal controls |
| • Economic outlook is dimming                   | ✔ $10M holdback  
                                                          ✔ Strategic management of enrollment |
| • Operational efficiency and effectiveness      | ✔ Cost reduction initiatives  
                                                          ✔ Collaborations |
| • Balance sheet management                      | ✔ Strengthen Chief Investment Officer function  
                                                          ✔ Strategic management of debt and other assets  
                                                          ✔ Five-year financial goals |

NOTE: Trends identified in Moody's January 2008 US Higher Education Outlook
Cost Savings Update

The following initiatives continue to be priorities for the university and are successfully controlling costs in their respective areas:

**Strategic Purchasing**

Cost savings and streamlining/simplification of processes continue to be the primary drivers in the migration to strategic purchasing. To support this purpose driven approach, an e-procurement system was launched in February 2008; e-travel solution is targeted for implementation in June 2009; and a third party provider has been selected to conduct on-line, real time reverse auctions. In addition, strategic purchasing teams continue to analyze commodities to identify new areas of opportunity and there are strong collaborations with the Inter University Council, the state of Ohio and other buying consortiums to secure best value contracts. Documented enterprise wide cost savings were $84.7 million in FY 08. This includes University savings of $41.5M; Ohio State University Medical Center savings of $37.2M and Research Foundation savings of $6.0M.

**Your Plan for Health**

This healthcare strategy is premised on disease prevention and other initiatives which leverage partnerships inclusive of the University, the Medical Center and various public and private sector entities. According to AON Consulting the expected national trend was 10%; our stated goal is to remain below 7%; in fact for fiscal year 2008, we experienced a slight cost decrease (a trend less than zero). Long term analysis continues to evaluate this surprisingly favorable result.

The new Rx Ohio collaborative is projected to save $11.1 million by 2010. Health Coaching and Disease Management initiatives have avoided costs of over $2 million, while provider contracting has resulted in $1.2 million in out of network costs savings. The program’s Personal Health Risk Assessment (PHA) participation has increased 88% over the previous year with 11,851 employees participating. National studies show direct and significant cost reduction and cost avoidance for those members enrolled in similar programs. These studies also noted that individuals who reduced one health risk improved their work attendance by nearly double digit rates and reduced absenteeism by 2%.
Transition to Work

The Transitional Work Policy program is modeled after successful efforts elsewhere that demonstrate savings to employers in Workers’ Compensation and Disability costs to support employees with temporary physical and/or psychological restrictions so as to enable them to continue to work throughout their recovery. The purpose of this policy is to help such employees continue to work to the maximum extent possible, and to support units in their efforts to provide work to these employees. This is year two of a three-year initiative. An investment of $241,000 was expected to save between $1.5 and $2.8 million annually by 2010. The FY 08 savings was $2.9 million.

Energy Conservation

The rising cost of energy has made it cost effective to enhance conservation efforts and explore alternative energy sources across campus. Energy conservation project implementation began in FY 2007. Projects implemented in FY 2007 and FY 2008 will continue to yield cost avoidance in FY 2009. Total annual cost avoidance for FY 2008 was $620,000. Total projected cost avoidance for FY 2009 from energy projects is $978,000. These projects have a five year net present value of $3.8 million.
Financial Issues Work List for FY 2009

One University

➢ Support University efforts to engage with state officials to develop the University System of Ohio
➢ More closely integrate physical planning, capital planning and financial planning
➢ Continue to streamline and strengthen internal controls
➢ Better leverage all University assets
➢ Continue to strengthen enterprise-wide risk management
➢ Improve student housing

Academic Excellence

➢ Support allocation of doctoral funds based on program quality rather than enrollment
➢ Support expansion of need based financial aid to assure access
➢ Support implementation of the consolidation of the Arts and Sciences
➢ Help reduce financial barriers to interdisciplinary collaboration
➢ Activate the President's Strategic Investment Fund

Financial Resources

➢ Develop a five-year financial plan
➢ Assist in providing budget support for the next Development Campaign
➢ Complete successful establishment of the Office of the Chief Investment Officer
➢ Continue to identify better funding support for deferred maintenance
➢ Review and improve investment performance of all assets
➢ Continue to monitor key areas of financial performance, including:
   1. Medical Center expansion
   2. State budget
   3. Student financial aid
   4. Reduction of undergraduate credit hours needed to graduate
   5. SIS installation
### What Happens Next?

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<thead>
<tr>
<th>Month</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>February</td>
<td>FY 2008 Budget v. Actual Mid-Year Financial Review</td>
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<tr>
<td>April</td>
<td>FY 2010 Preliminary Tuition Recommendations Financial Benchmark Report</td>
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<tr>
<td>June</td>
<td>FY 2010 Preliminary Budget Recommendations Final Approval of Tuition and Fees for FY 2010</td>
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<tr>
<td>July</td>
<td>Final Budget Approval Preliminary Capital Recommendations for 2011-2012</td>
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