

**Faculty Senate Budget Review Committee
Annual Report
Academic Year 2020/2021
May 1, 2021**

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Financial Statement AY 2019/2020

The Fiscal Years of Temple University coincide with the Academic Years, so FY 2019/2020, the last year for which we have an audited Consolidated Financial Statement for Temple ended on June 30, 2020. Also, the Consolidated Financial Statement published by Temple includes both Temple Hospital and Temple University.

According to Ken Kaiser, Temple's Chief Financial Officer, the Excess of revenues over expenses is attributable approximately 60% to the Hospital and 40% to Temple University. This "Excess of revenue over expenses" is what would be termed Net Income of Profit if Temple were incorporated as a profit-making business.

The Excess of revenue over expenses for AY 2019/2020 was:

Total Revenues	\$3,606,941,000
Less Total Expenses	<u>\$3,443,542,000</u>
Excess revenue over expenses	<u>\$ 163,399,000</u>

Ken Kaiser has stated that the goal of Temple's operating philosophy is to have a margin or "excess revenue" at the end of the year. Moody's [one of the three big Credit Rating Companies] expects an institution of Temple's size to have a margin of 3 % to 4% -that is, (Revenue-Expenses)/Revenue = 3% or 4%.

For those of you more familiar with profit making corporations' financial statements, Temple's goal of 3% to 4% would be termed Net Income as a Percent of Total Revenue. Looking at the above figures for AY 2019/2020, Temple's Excess revenue over expenses was 4.5%.

Temple's Cash Flow

However, in order to get a true sense of the Cash Flow of Temple for last academic year, rather than just "Excess revenue over expenses," we have to add two other major line items, Additional New Investment Income and Depreciation. (I have simplified the Cash Flow calculation by ignoring adjustments for esoteric accounting line items such as actuarial changes in accrued pensions, etc.)

Add Net Additional Investment Gains	
Income	<u>\$ 17,142,000</u>
Cash Flow	<u>\$ 180,541,000</u>

Add Depreciation \$ 151,796,000 (from page 6)

TOTAL Cash Flow \$ 332,337,000

Budget AY 2020/2021

The Operating Budget for Temple University only (not including the Hospital) for the current Academic Year (AY 2020/2021) shows revenue and expenses of \$1,261,518,000.

According to Ken Kaiser, there are three different budgets that the Treasury Department prepares:

#1 Operating Budget

#2 Auxiliary Units Budget (mostly Dorms and Dining Halls)

#3 Capital Budget

#1 The **Operating Budget** for the Current FY and AY is approved by the Trustees in July of each year and the current Op Budget for AY/FY 2020/2021 is \$1,261,518,000.

Tuition and fees and PA state appropriations make up about 94% of the Op Budget revenue. Other revenues make up about 6%.

The expense side of the Op Budget is dominated by salaries and benefits that make up about 60% of the expenses.

#2 The **Auxiliary Units Budget** is \$110,000,000. It used to have the physicians' practices in there but does not any longer, so it made up of mostly Dorms and Dining Hall revenue. The goal for the Auxiliary units is that they make money.

#3 The **Capital Budget** is tied to the Capital Grants Temple gets from the state to build buildings, etc.

The total losses from COVID for last academic year and this academic year will be \$120,000,000 to \$125,000,000. This is due to loss of revenue plus costs associated with COVID. This includes a 5%+ drop in undergraduate enrollment (a total drop of 1,723), a \$75,000,000 loss in housing revenue and \$15,000,000 fund created for COVID testing.

Temple cut the Operating Budget for AY 2020/2021 by \$48,000,000. The undergrad enrollment was down by 5% and Temple has assumed this will not come back!

Savings in the Op Budget for AY 2020/2021 came from some concessions from the bargaining units and from zero travel. (Travel is a pretty big number in Temple's budget.)

Enrollment Projections AY 2021/2022

The major cause of the drop in revenue and the resulting Operating Budget shortfall for AY 2021/2022 (the upcoming year) is Temple's projected drop in enrollments of 1,400 students.

Shawn Abbott, Assistant Provost for Admissions and Financial Aid, reports that Approximately 400 of the enrollment drop is due to Fly in Four and general decline in college attendees. About 1,000 of the enrollment drop is due to COVI-19.

Fly in Four increased four-year graduation rates by 17% since 2016. The four-year graduation rates are now 61% at Temple. Tuition payers has to be factored into the Budget, that includes both scholarships and out-of-state tuition payers vs. in-state tuition payers.

Abbott says that It is both an art and science projecting admissions. For the current AY, the goals were:

New Students

5,050 in Fall Semester

100 in Spring Semester

Transfer Students (from 12 "feeder" Community Colleges)

2,000 in Fall Semester

1,000 in Spring Semester

Estimates for upcoming AY 2021/2022

New Students

5,050 in Fall Semester

50 in Spring Semester

Transfer Students

2,000 in Fall Semester

500 in Spring Semester

Temple is struggling in the transfer student situation. Temple is dependent on 12 local Community Colleges for transfer students and there is a 13% drop in enrollments at the local Community Colleges.

Temple will get a better view of enrollments in July, when we get acceptances and deposits.

Also, Temple's retention rate from Freshman year to Sophomore year has slipped this year. It is about 89% to 90%. That is down 2% from previous years.

Ken Kaiser adds: "We do not know if the 1,400 drop in enrollment is temporary or permanent. So, we must plan as if it is permanent."

Fiscal Implications of Enrollment AY 2021/2022

For AY/FY 2021/2022, Ken expects a \$20,000,000 to \$30,000,000 Operating Budget shortfall, depending on whether the Trustees feel they can raise tuition rates by 2% or not. As a consequence, Temple's Deans were instructed to prepare for an additional 5% cut in their budgets for the upcoming academic year.

Subsidies from American Rescue Act

According to Ken Kaiser, Temple expects to get an additional \$78,000,000 from the recent COVID relief bill, which Biden enacted ("The American Rescue Act"). Half of the grant money must go to aid students. This is money that students can use to pay for food, tuition, housing, childcare, transportation, course materials, and technology.

Temple can use its half of the grant for, among other things, technology, new safety improvements, faculty and staff trainings, and payroll.

However, in Kaiser's opinion, the Operating Budget deficit is a permanent loss from the drop in student enrollment due to Fly in Four, COVID, and other trends, while the American Rescue Act grant is only a one-time impulse. So, Temple must plan for as if the drop in enrollment is permanent.

Investments

The Temple Consolidated Financial Statements for AY 2019/2020 lists Temple's Endowment and Investments as \$1,688,952,000 (p. 22). Temple reported an Investment return of \$64,334,000 in its Revenue statement in AY 2019/2020.

Ken Kaiser reports that for the last few years, Temple's investment returns have been below the Benchmark established for its Investment Funds, by Temple's outside investment manager, Strategic Investment of Arlington, VA.

Of the total Investment amount, \$680,097,000 is Temple's endowment, which is restricted to use for student financial aid and other specific uses. That is to say, the Endowment cannot be used for Temple's general operating expenses.

Of the remaining \$1 Billion of investments, Ken Kaiser points out that it contains some restricted money and fluctuates due to Temple's cash flow. However, at least some of it is not restricted and could be used for general Temple expenses.

Temple's Trustees have established that Temple can spend 4.25% of the asset value of its Investments last year and this year from the Endowment Fund and from the non-Endowment Investments. According to Kaiser, the 4.25% is a "spending rule and not an estimated return on investments. The Trustees assume an annual nominal rate of return of 7% and a real rate of return of 5% on its investment. It decided on the spending rule of 4.25% this year and that gives them a buffer of .75%."

Changes to RCM for AY 2021/2022

Just in the past few weeks, Temple has announced that it will change RCM ("Responsibility Center Management") for the upcoming FY. Specifically, Temple has informed the Deans that budget shortfall for FY/AY 2021/2022 can be spread over three years.

These new developments are welcome, and more details are anticipated soon along with a new estimated budget for AY/FY 2021/2022.

Respectfully Submitted,
Donald T. Wargo
Chair,
Faculty Senate Budget Review Committee