**University of Massachusetts Boston**
**Operating Budget Narrative, Fiscal 2024**

## Introduction

The development of the University of Massachusetts Boston's ("UMB") annual operating budget begins in the fall prior to the upcoming fiscal year which runs from July to June each year. The campus is provided guidelines for planning purposes by the President's Office ("System Office") that are part of the overall university system parameters. These are usually assumptions for changes in in-state tuition rates, state appropriation and fringe, central charges, and collective bargaining. Campuses are also given overall financial requirements, such achieving a certain level of operating margin.

The campus also reviews its tuition and fees levels annually as part of the operating budget. Tuition & Mandatory fees by career (undergraduate/graduate) and residency are approved by the University of Massachusetts Board of Trustees with all other fees and charges approved by the President's Office or Chancellor through the authority granted by the Board of Trustees. Rates for associated public-private partnerships ("P3"), such as Motley residence halls, are determined by the respective P3 Board, which includes members from the campus administration.

An annual Capital Budget and 5-year Capital Plan are also developed and updated during the operating budget development process in order to capture any operating costs or savings related to capital projects. UMB's capital budget is part of the overall capital budget for the University of Massachusetts. The System Office updates the university capital budget biannually. Details of the capital budget are available on the Office of Budget & Financial Planning (OBFP) webpage here. Details of the FY24 Operating Budget follow.

### Annual Budget Calendar

- **Planning for upcoming fiscal year beginning the following July 1st.**

November (or prior)

- General Operating Budget guidance issued and UMPlan system opens for unit planning

January

- Specific planning parameters received from State and System Office
- Operating Budget system closes for edits
- Tuition & Fees set and Revenue fund process begins
- Capital Budgeting process begins

February

- Budget meetings with departments are held. Operating expense, revenue, fees and capital projects are reviewed

March

- Tuition & Fees schedule due to System Office

April

- Board of Trustees vote on Tuition & Mandatory fees

May

- Updates to State Appropriation based on State Budget process
- Adjustments to targets made

June

- Board of Trustees vote on budget

**Executive Summary**

UMass Boston, like any organization, has been fiscally challenged over the last several years by the COVID-19 pandemic. But for the campus, this challenge arrived as the campus was emerging from a period of financial challenges where the operating budget has been in structural deficit. Though on its way to achieving structural balance between revenues and expenses, increasing cash reserves and stabilized enrollment and staffing, the pandemic brought concern for the progress made.

Reductions in enrollment and campus remote activities due to the pandemic put strain on resources that had only now begun to recover and track again toward fiscal stability. Overall, the campus fared well due to strong Federal and State support of our students and the institution through the various financial supports provided during that time – some of which continue through Fiscal 2023 and into plans for Fiscal 2024 – and the ongoing support of the Commonwealth through increased State Appropriations revenue to the campus.

During the "COVID period" from Spring semester 2020 (Fiscal 2020) to the summer 2021 return from remote operations, enrollment declined, auxiliary revenue was near zero and the campus incurred the added cost of supporting both students and employees in a remote environment.

The campus managed these challenges well – working through all the complexities and sustaining major capital investment begun prior to COVID, develop more efficient operating practices, and continue a trend of positive annual operating margins during these tough times.

Though COVID has now receded from the forefront of fiscal stressors, the campus still has challenges. The war in Ukraine has increased the price of energy commodities and the recent inflationary increases on, and scarcity of, materials has increased the costs of all goods and services as well as driven demand for increased wages. In-state enrollment has declined annually from its peak in the fall of 2020 while out of state and international have begun to grow again and demographics portend a decline in domestic high school graduates going forward.

During Fiscal 2023, the campus developed a new Strategic Plan, which is centered around the following Strategic Priorities and Commitments:

| Strategic Priorities: | Commitments: |
|---|---|
| Holistic Student Success | Teaching, Research and Service Mission |
| Impactful Research and Scholarship | Antiracist and Health Promoting |
| For the City | Community and Collaboration |
| Enriching Our Human Core | Operational Excellence |
| Reimagining Our Campus Space | |

The Fiscal 2023 and 2024 Operating and Capital budgets begin to align resources to this plan. The new Campus Master Plan and Energy and Carbon Master plan will be released in FY2024, providing the opportunity for more to follow in the coming fiscal years.

UMB has already begun implementation of the Priorities & Commitments of the plan with the following efforts (to name a few related to Administration & Finance):

- A&F and the Provost are engaged in the development of a new, hybrid "Activities-Based" budget model entitled The Beacon Budget Model ("BBM"). The BBM has been being built during FY2023 and will run parallel to the existing incremental budget model until going live. The new model provides additional fiscal transparency, aligns resources with expenses, provides incentives for growth and efficiency, while increasing accountability. (Operational Excellence)
- UMB has implemented reforms in the student billing and the structure of Tuition & Fees to decrease confusion and increase flexibility for students (Holistic Student Success)
- UMB has performed operational reviews of several departments including Informational Technology, Police, Facilities and the Bursar's Office which has resulted in organizational improvements and efficiencies. (Operational Excellence)
- A&F Facilities has undertaken "spruce-up" projects across the campus to Reimagine Campus Space (Reimagining Our Campus Space)
- Working with Boston Fire Department to install a needed communication structure on a campus building (For the City)
- …many more initiatives exist across campus divisions and departments

The pages that follow include descriptive statistics and trends related to campus revenues and expenses over the past 5 years, an update on the current fiscal year (2023) projection, and an overview of the Fiscal 2024 budget that commences July 1, 2023.

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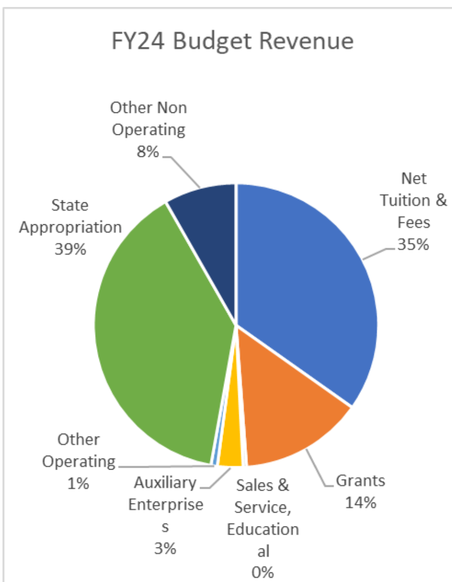
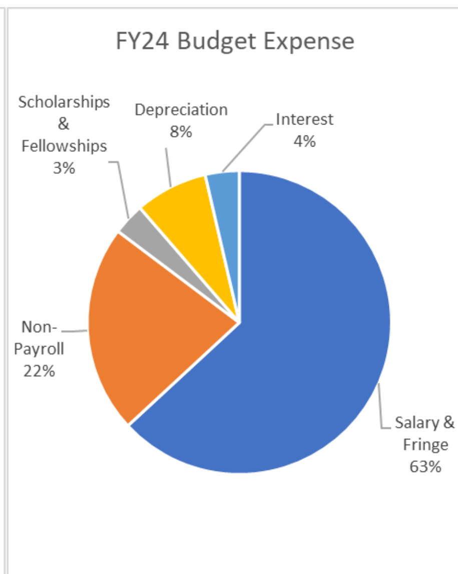
**Categories of Revenue & Expense**

Operating budget revenue is largely driven by State Appropriations and Tuition & Fees (net). These two revenue sources account for 74% of the campus's annual resources. The remaining revenue results from Grants, Auxiliaries such as Parking and Dining, and Other Operating/Non-Operating funds.




Operating budget expenses are driven by Salaries & Fringe and Non-Payroll costs which account for 85% of all expenses with the remainder consisting of Interest, Depreciation, and Scholarship/Fellowship expenses. See the charts to the right for the relative sizes of major revenues and expenses.

## Trends in Operating Results

In the following pages trends in key categories of operating results are examined to provide the recent operating experience of the campus.

| 5-Year Trend of Annual Operating Revenues, Expenses ($ in Thousands) | | | | | |
|---|---|---|---|---|---|
| **Revenues** | | | **Actual** | | **Projected** |
| | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** |
| Gross Tuition & Fees | 245,734 | 252,603 | 256,240 | 244,867 | 259,537 |
| Tuition Discounts | (64,836) | (69,973) | (74,079) | (76,828) | (86,292) |
| *Discount Rate* | *26.4%* | *27.7%* | *28.9%* | *31.4%* | *33.2%* |
| Net Tuition & Fees | 180,898 | 182,630 | 182,161 | 168,039 | 173,246 |
| Grants | 53,536 | 54,732 | 58,185 | 63,564 | 75,456 |
| Sales & Service, Educational | 4,312 | 1,744 | 1,262 | 1,927 | 2,343 |
| Auxiliary Enterprises | 12,315 | 10,381 | 3,230 | 13,568 | 14,891 |
| Other Operating | 2,218 | 3,138 | 2,586 | 2,677 | 2,677 |
| State | 140,659 | 146,284 | 152,833 | 158,380 | 187,237 |
| Other Non Operating | 40,925 | 45,105 | 69,769 | 78,053 | 44,540 |
| **Total Revenues** | **434,863** | **444,014** | **470,026** | **486,208** | **500,391** |
| % Growth | 2.3% | 2.1% | 5.9% | 3.4% | 2.9% |
| **Expenses** | | | | | |
| Salary & Fringe | 269,723 | 269,734 | 270,486 | 274,008 | 298,011 |
| Non-Personnel | 98,428 | 96,680 | 90,822 | 118,316 | 121,628 |
| Scholarships & Fellowships | 17,983 | 20,771 | 30,189 | 35,893 | 18,141 |
| Depreciation | 28,010 | 32,460 | 32,765 | 34,280 | 34,390 |
| Interest | 16,823 | 19,312 | 18,730 | 19,209 | 19,220 |
| **Total Expenses** | **430,967** | **438,957** | **442,992** | **481,706** | **491,391** |
| % Growth | 1.6% | 1.9% | 0.9% | 8.7% | 2.0% |
| **Operating Margin** | | | | | |
| UMass OM Calc Revenues | 434,863 | 444,014 | 470,026 | 486,208 | 500,391 |
| Total Expenses | 430,967 | 438,957 | 442,992 | 481,706 | 491,391 |
| **Surplus / (Deficit)** | **3,896** | **5,057** | **27,035** | **4,502** | **9,000** |
| **UMass OM Calc** | **0.9%** | **1.1%** | **5.8%** | **0.9%** | **1.8%** |

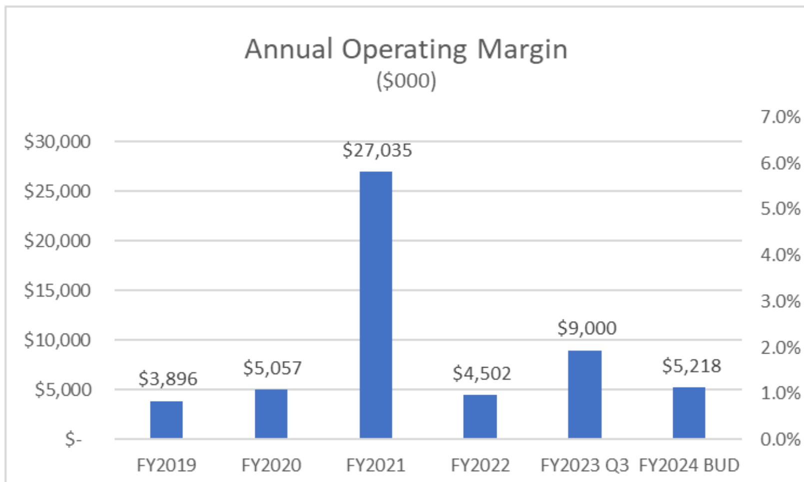
Overall, revenue growth has trended positive with annual growth rates running at or slightly above inflation. FY21 (and somewhat, FY22) revenue is elevated from the influx of Federal and State COVID-related stimulus funds from the CARES Act, CRRSAA, GEER and ARPA programs. This aid took the form of pass-through direct emergency aid to students (shown in the Other Non-Operating revenue and Scholarships & Fellowships expense lines) and Institutional support (shown in the Other Non-Operating revenue line) totaling over $77M -- $31M in direct student aid and $46M in institutional aid. Some of latter was used for student purposes such as additional emergency aid grants, retention grants, and the disposition of past-due student balances that arose during COVID. The remainder of institutional aid was used to offset losses in Auxiliary and Tuition & Fee revenues. FY23 revenue growth is supported by a substantial increase in annual State support plus the impact of changes to the tuition & fee structure on top of increasing out-of-state and graduate enrollment.

Expense growth has been within available revenues with clear reductions in Non-Personnel expenses driven by the remote operation of the campus during COVID. Such expenses have returned to and exceeded the levels prior to COVID due to inflationary pressures on the prices of goods and services such as utilities. Salary & Fringe expense is increasing post-COVID with cost-of-living adjustments combined with increased hiring and fringe rates (partially offset by increased State support). Depreciation expense has increased as the campus has completed the remaining portions of its 2009 Capital Master Plan and has pursued capital investment in its physical plant assets during COVID and after.

Despite challenges on both sides of the ledger due to COVID, and with the help of outside support, the campus has maintained a positive annual operating margin since FY18. The Board of Trustees has issued a requirement that all campuses meet or exceed an annual operating margin of 2% beginning in FY25. This requirement was delayed from an original implementation in FY23 due to COVID but has been reinstated for FY25.

**Operating Margin Trend**

The Boston campus has produced an operating surplus of approximately 1% annually between Fiscal 2019-2022 with FY21 as an outlier. In Fiscal 2021, the campus completed the year with a $27M or 5.8% operating surplus due to COVID-related fiscal stimulus funds accounted for in that year. In FY23 the campus expects to have a 1.8% operating margin as of the Q3 forecast, which includes $5.0M of one-time American Recovery Plan Act (ARPA) funds awarded by the state of Massachusetts to the UMASS System. FY24 is budgeted at a 1.0% operating margin.




**Major Revenue Trends**

Tuition & Fees

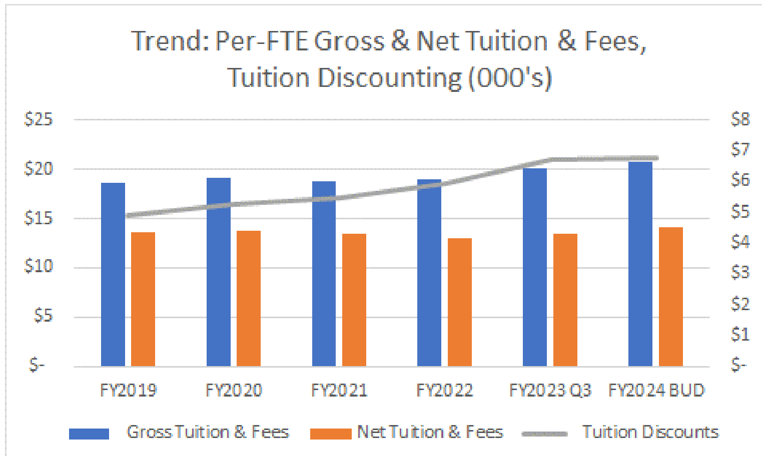
Tuition & Fees revenue is the product of enrollment and annual tuition & fees rates. The campus has Board-approved annual tuition rates (applied at the per-credit level) based on career and residency.

**Annual Rates of Tuition & Mandatory Fees**

| | Undergraduate | | | Graduate | | |
|---|---|---|---|---|---|---|
| | Resident | Regional | Non-resident | Resident | Regional | Non-resident |
| FY2019 | 14,167 | 26,779 | 33,966 | 18,251 | 29,414 | 35,287 |
| FY2020 | 14,653 | 27,713 | 35,115 | 18,888 | 30,386 | 36,435 |
| FY2021 | 14,697 | 25,337 | 35,159 | 18,938 | 32,763 | 36,485 |
| FY2022 | 14,717 | 25,357 | 35,179 | 18,938 | 32,763 | 36,485 |
| FY2023 | 15,172 | 26,078 | 36,145 | 19,499 | 33,669 | 37,484 |
| FY2024 | $ 15,535 | $ 26,711 | $ 37,211 | $ 19,971 | $ 34,496 | $ 38,406 |

For years FY20-22 the were no increases in base annual tuition rates for Resident and Non-resident students, and rates for Regional students declined in FY21. Mandatory fees increased for Student Activities and Technology during the same period. At the same time enrollment was relatively flat, increasing slightly through FY21, until declining by over 600 FTE, or 4.5% in FY22. The decline continued into FY23 with another 100 FTE loss. In-state enrollment is expected to be challenging due to decline in graduating high school students projected nationally over the coming decade. International enrollment was impacted by the pandemic and is beginning to recover in FY23 and that recovery is expected to continue to grow in FY24.

Gross Tuition & Fees revenue remained relatively flat from FY19-21, decline in FY22 by over $11M, or -4.4%, but is expected to increase in FY23, despite declining enrollment, by nearly $15M, or 6.0%. This is due to an increase in Non-resident enrollment at a higher rate of tuition than in-state or regional, an increase in annual tuition rates, and a change to the structure of tuition & fees.




Net tuition and fees revenue had also been flat until the FY22 decline of in-state and international enrollment and has also increased driven by the same factors as Gross Tuition & Fees. Tuition discounting (6.6% CAGR) has increased at an annual average rate 3x's that of gross revenue (2.2% CAGR) since FY19. The resulting impact on growth in Net Tuition & Fees is an annual average (CAGR) of 0.5%. The increase in Gross and Net revenue along with discounting can be seen in the chart above (controlled for changes in enrollment).

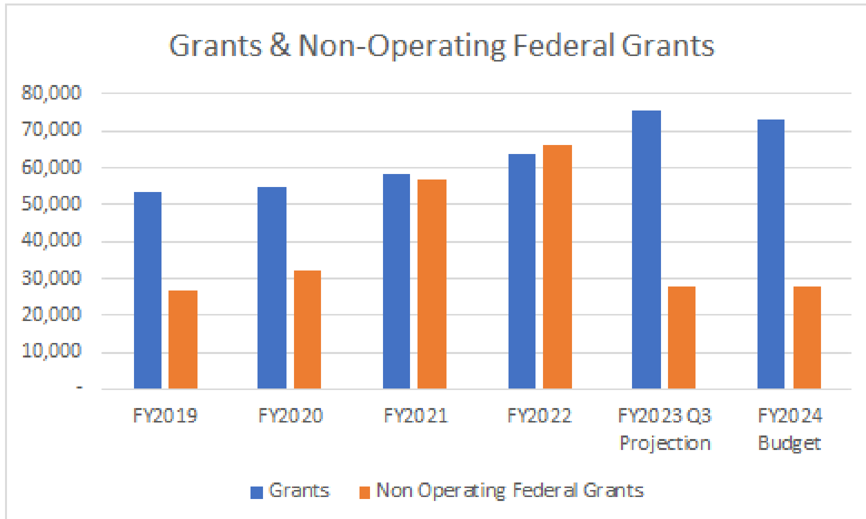
Implemented with the Fall 2022 semester, the change to the structure of tuition & fees is the result of efforts to simplify student billing by rethinking Continuing Education (CE). All online courses and many credit-bearing courses for matriculated students had migrated to CE which had different billing practices and rates. Changes included separating online programs from individual online courses and applying consistent billing and pricing. The net effect is to allow students to take online courses as part of regular "day" school course loads at regular tuition rates while developing substantially online programs at market-rate pricing. Students also benefit from consistent application of financial aid. The

| | Actual Fall Enrollment | | | | | Budget |
|---|---|---|---|---|---|---|
| **Students** *(FTEs)* | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** |
| Undergraduate | 10,258 | 10,303 | 10,370 | 9,810 | 9,981 | 10,026 |
| In-State | 8,776 | 8,827 | 9,084 | 8,564 | 8,352 | 8,254 |
| Out-of-State | 475 | 487 | 548 | 673 | 846 | 909 |
| International | 1,005 | 974 | 710 | 573 | 597 | 677 |
| *% Change* | *4.2%* | *0.4%* | *0.6%* | *-5.4%* | *1.7%* | *0.5%* |
| Graduate | 1,727 | 1,784 | 1,792 | 1,556 | 1,826 | 1,872 |
| *% Change* | *-4.3%* | *3.3%* | *0.4%* | *-13.2%* | *17.4%* | *2.5%* |
| Continuing Ed | 1,228 | 1,162 | 1,409 | 1,593 | 1,048 | 1,064 |
| *% Change* | *-11.6%* | *-5.4%* | *21.3%* | *13.0%* | *-34.2%* | *1.6%* |
| **Total** | **13,213** | **13,249** | **13,571** | **12,959** | **12,855** | **12,962** |
| *% Change* | *1.4%* | *0.3%* | *2.4%* | *-4.5%* | *-0.8%* | *0.8%* |

structure change can be seen in enrollment data in the shift from the continuing education section of enrollment into the Undergraduate and Graduate areas in FY23 and in the FY24 budget vs. prior years.

<u>Grants</u>

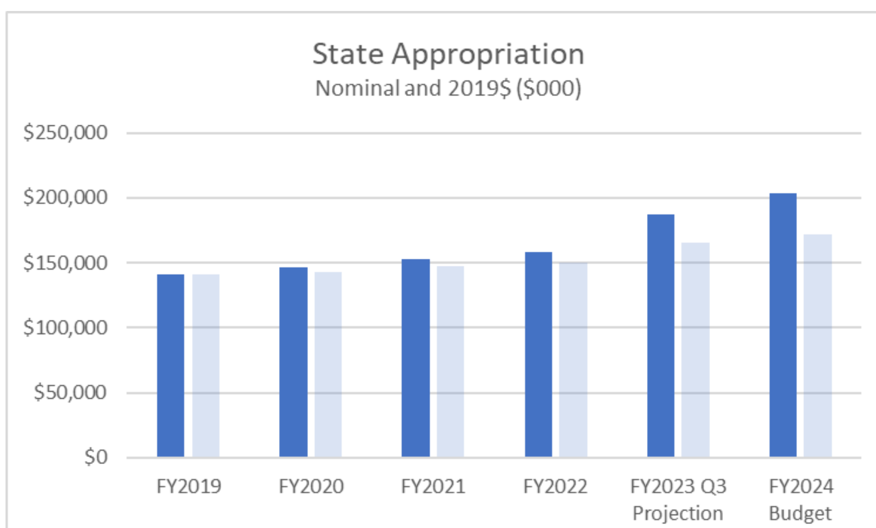
Grants revenue has increased sharply in FY22-23. The increase in grants revenue can be attributed to an increase in all types of grant funding including federal, state, private, and local grants. This is driven by increased research awards, private awards through University Advancement, and increased aid awards. Non-Operating Grants revenue has also been significantly higher in recent years, but that is driven by one-time federal stimulus money due to COVID. In the FY24 budget non-operating federal grant revenue is attributable to Pell/SEOG aid and is in line with previous years.




<u>State Appropriation</u>

State appropriation revenue has increased steadily from FY19-FY22, mostly commensurate with Cost of Living and Fringe rate increases (both reimbursed by the state to the campus for the majority of employees), typically resulting in an annual average increase of $6M, or 4%.

In FY23, the state appropriation included collective bargaining at 2.5% resulting in a $2.4M increase. There was also additional support for financial aid of $3.9M, funds for price inflation of $3.7M, and discretionary funds of $2.7M. One-time increases included funding related to the American Rescue Plan Act (ARPA) of $5.0M and for Cost-of-Living expenses that were never covered in FY21-22 of $1.2M. Additional fringe



reimbursement related to these changes totaled $4.6M.

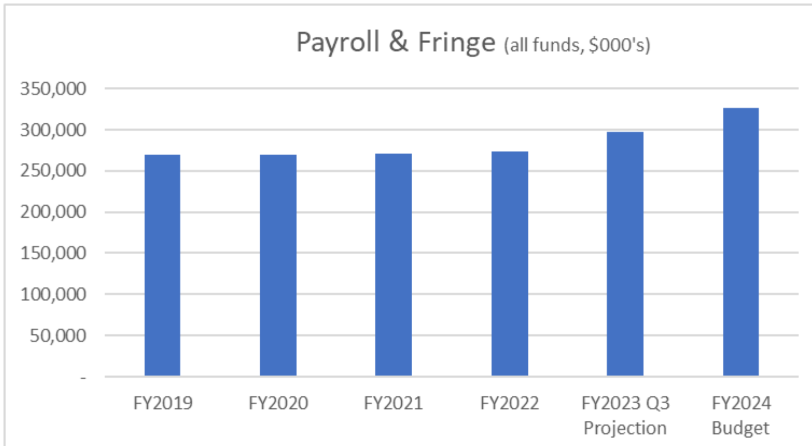
The FY24 Budget includes collective bargaining at 6.08% resulting in a $7.0M increase. Additional on-going support is budgeted that includes price inflation of $3.5M. One-time ARPA funds are budgeted at $3.0M (down $2.0M from the prior year). In total, excluding ARPA, fringe reimbursement is budgeted to increase $8.1M resulting from fringe rate changes and additional collective bargaining and inflation funds.

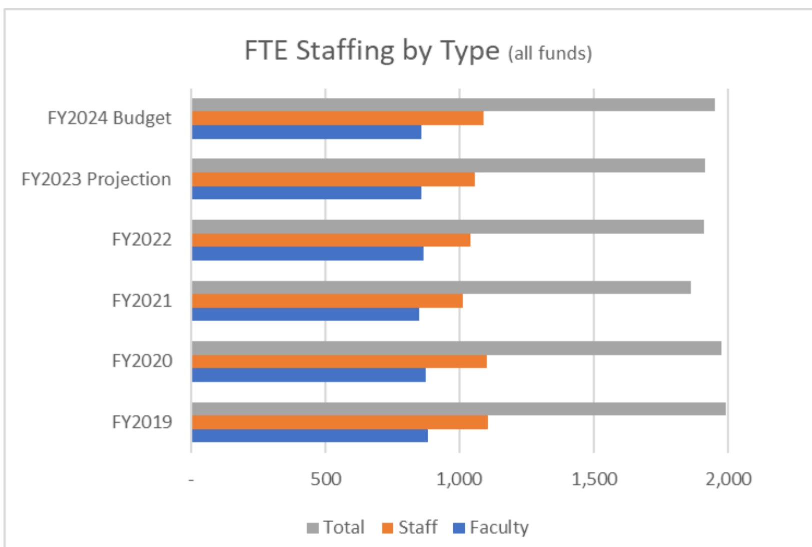
**Major Expense Trends**

Payroll & Fringe

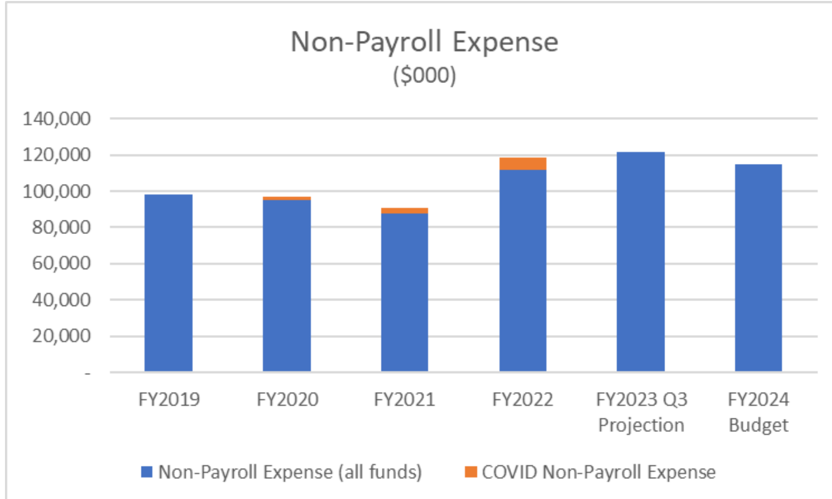
Payroll & Fringe had been mostly flat in FY19-20, despite cost-of-living and fringe rate increases, due to a focus on position management and reorganization efforts. In FY22, with the return to campus, Payroll & Fringe began to increase due hiring of vacant positions post COVID-19 pandemic. During this period there were also cost of living increases and inflationary fringe increases. FY23 and FY24 show an increased trend due to increased restricted employment, return to normal levels of non-benefitted payroll post-pandemic, lower vacancy savings compared with pandemic years, and cost of living increases in excess of traditional levels (see Fiscal 2024 Budget Assumptions & Details for specifics as it pertains to FY24).

In FY21, COVID-19 impacts from furloughs and other separations, resulted in decreased FTE's – mostly in staff (-8.4%) rather than faculty (-3.9%). Staffing levels are expected to increase, slowly in FY23 and then faster in FY24, back to near pre-pandemic levels.



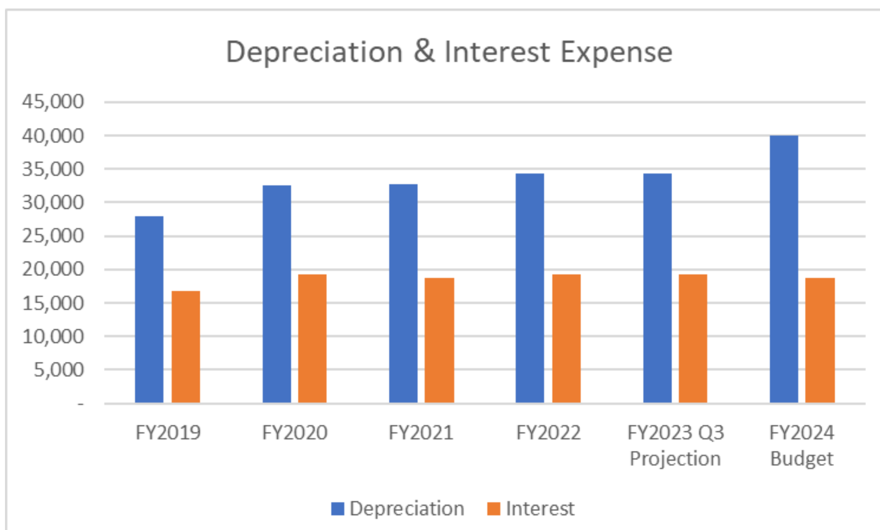



Non-Payroll Expense



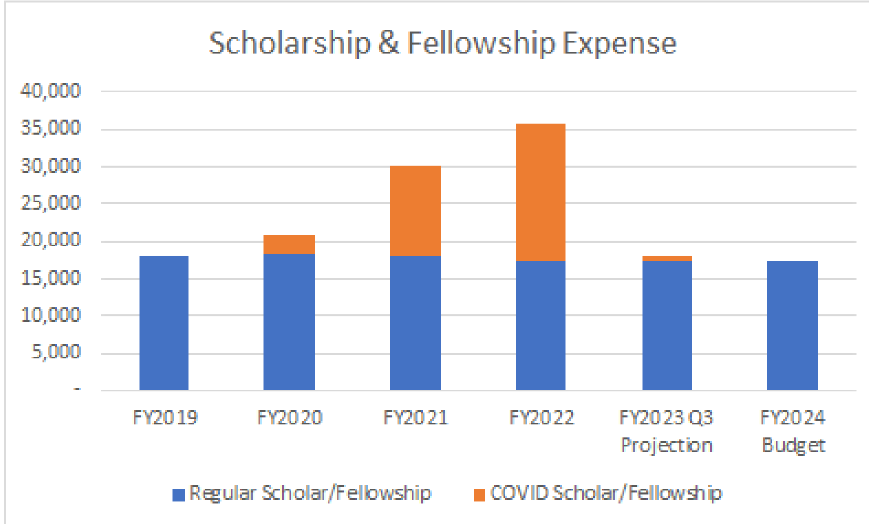

Non-Payroll expense has had significant anomalies affecting total spend in the recent trend. Beginning in FY20 and through FY22 unrestricted non-payroll expenses have declined due to the COVID-19 pandemic and remote operations, the most pronounced year of this decreased spending was FY21 as that was a full year of remote operations. In FY22-23, there were increased investments in marketing, enrollment partnerships (Shorelight), and a master planning consultants. There were also several significant service contracts during the same period including dining, custodial, and bus contracts. FY24 budget is in line with the expense trend from FY22-23, with some of the one-time investments (some marketing, master planning) removed.

Depreciation & Interest




Depreciation expense has been trending higher due to the completion of the 2009 capital master plan and a concerted effort by the campus to address deferred maintenance, health/safety, and compliance related issues on campus. In FY24, the SDQD project is expected to be complete which will impact the depreciation schedule with an increase beyond recent trends. Interest expense is commensurate with debt incurred for the 2009 capital master plan as no new debt has been added since prior to FY17. Beginning in FY22, short-term debt (commercial paper) has been utlized to fund the remaining cost of the SDQD project, the campus plans to satisify these obligations with proceeds from long-term lease and dvelopment of the Bayside property, see Fiscal 2024 Budget section for more information on impacts related to the this property.

Scholarship & Fellowships




Scholarship/Fellowship Expense is related to tuition discounting, as the total pool of expenses are split through and accounting entry at year end between discounting and expense. Typically changes in this total appear in the discounting line in revenue and the expense stays fairly consistent. This is the case in the trend, however COVID scholarship & fellowship expense related to the stimulus packages skews the to total numbers.

**Current Year (FY23) Budget vs. Projection**

The FY24 budget includes assumptions based on expected FY23 results as well as prior year trends and assumptions for the coming year from the System Office, the campus strategic plan and impact of efforts by the campus to increase revenue and control expenses.

The current year projection (FY23) was planned as a balanced budget but at the end of Q3 was projected to end the year in surplus with an operating margin of $9.0M, or 1.8%. Substantial increases in Grant and State Appropriation revenue are the main drivers of the increase in resources available. Increases in Salary and Non-Personnel drive the increase in expense. The increase in Grant revenue also increases both expense lines. The increase in State Appropriation is directed toward funding for financial aid, mental health, inflation along with some discretionary expenditures. See more on State Appropriation trends below.

| Revenue | FY23 Budget | Projection (Q3) | $ | % | Comments |
|---|---|---|---|---|---|
| Gross Tuition & Fees | 258,097 | 259,537 | 1,441 | 0.6% | Int'l enrollment, T&F rate/structure |
| Tuition Discounts | (78,360) | (86,292) | (7,931) | 10.1% | Restricted/Merit/Shorelight |
| Net Tuition & Fees | 179,736 | 173,246 | (6,491) | -3.6% | |
| Grants | 61,799 | 75,456 | 13,657 | 22.1% | Direct revenue/RTF/Advancement |
| ESS | 1,652 | 2,343 | 691 | 41.9% | |
| Auxiliary Enterprises | 12,756 | 14,891 | 2,135 | 16.7% | Dining/Parking |
| Other Operating | 2,586 | 2,677 | 91 | 3.5% | |
| State Approp. | 171,424 | 187,237 | 15,813 | 9.2% | Financial Aid, Inflation, Discretionary |
| Other Non Operating | 40,544 | 44,540 | 3,997 | 9.9% | GASB 87/Cell tower/TFI return/Gifts |
| Total Revenues | 470,496 | 500,391 | 29,894 | 6.4% | |
| % Growth from FY2: | -2.5% | 3.7% | | | |
| Expenses | | | | | |
| Salary & Fringe | 289,333 | 298,011 | 8,678 | 3.0% | Restricted/student worker & GEO/accruals |
| Non-Personnel | 108,864 | 121,628 | 12,764 | 11.7% | Restricted/Shorelight/utilities |
| Scholarships/Fellowships | 20,593 | 18,141 | (2,452) | -11.9% | Net with Tuition Discounts above |
| Depreciation | 33,919 | 34,390 | 471 | 1.4% | |
| Interest | 17,787 | 19,220 | 1,433 | 8.1% | SDQD Commerical paper |
| Total Expenses | 470,496 | 491,391 | 20,894 | 4.4% | |
| % Growth from FY2: | -2.3% | 2.0% | | | |
| Operating Margin | | | | | |
| Total Revenues | 470,496 | 500,391 | 29,894 | 6.4% | |
| Total Expenses | 470,496 | 491,391 | 20,894 | 4.4% | |
| Surplus / (Deficit) | - | 9,000 | 9,000 | 100.0% | |
| Operating Margin % | 0.0% | 1.8% | | | |

Revenue

In addition to the increases in Grant and State Appropriation revenues, Gross Tuition & Fees are expected to exceed budget due to improved international enrollment after a steep decline during the COVID pandemic, as well as the impact of changes to the structure of tuition & fees.

Net Tuition & Fees declined from budget as discounting increased from several sources (additional state funds and aid from grants and partnerships) and related to the structure changes.

Auxiliary enterprises continued their increased from COVID-driven lows in FY21 and FY22. Revenue from parking and dining operations have increased with the post-COVID return to in-person campus activity of both students and employees. Parking revenue is also benefitting from investment in new parking systems and improved management controls implemented over the past few years.

Other Non-operating revenue will exceed budget due to accounting changes, increases in investment returns on cash (also increasing since FY17 low), and gifts to the campus generated by University Advancement efforts.

Expense

Increases in Salary & Fringe are driven largely by increased Grant revenue spending as the total level of faculty and staff remained close to plan. Smaller increases arise from additional student employment and the related contractual agreement with graduate student wages for assistantships. Some of the increase in fringe costs (non-grant) may be reimbursed through State Appropriation revenue above.

Non-personnel increases from budget are driven increased Grant revenue spending, increases in the price of utilities – though consumption has been reduced through focused efforts to manage campus buildings, and the cost of a third-party contract supporting international enrollment.

**Initiative: Tuition & Fee Structure Update**

Implemented beginning Fall 2022, the change to the structure of tuition & fees is the result of efforts to rationalize Continuing Education by separating online programs from individual online courses and applying consistent pricing at Board of Trustees-approved rates.

The net effect is to allow students to take online courses are part of regular “day” school course loads at regular tuition rates while developing substantially online programs at market-rate pricing. Students also benefit from consistent application of financial aid and simplified billing. Prior, all online, Summer and Winter session credit-bearing courses were considered continuing education and priced at reduced rates.

**Fiscal 2024 Budget**

The annual operating budget development process consists of the development of high-level assumptions for expense and revenue growth based on historical trends, intelligence gathered related to current operations and strategic investment initiatives, while incorporating strategies and solutions required to achieve the target. Priorities of this budget are also driven by the campus' new Strategic Plan, Campus Master Plan and Master Energy Plan.

The FY24 budget was developed with guidance and targets to departments that support finishing the year with a 1% operating margin ($5.2M). This effort is needed to step toward the system-required 2% operating margin for FY25.

The FY24 Budget includes an overall increase in revenue of 4.4% and an increase in expense of 5.2% from the current FY23 forecast (projected to end in surplus of $9M or 1.8%). Net Tuition & Fees and State Appropriation are the largest revenue increases planned. Salary & Fringe and Depreciation expense are the largest increases in expenses with Non-Personnel, Scholarships and Fellowships, and Interest all expected to decline versus FY23 Q3 Projection.

**Note:** The FY24 budget was derived with the overarching assumption of the sale of the former Bayside Exposition site. The sale is assumed to be valued at $192.5M and finalized in Q3 of FY24. The assumption is that those funds would be used to pay off $16.9M of existing debt (the balance owed on the site itself), and $52.8M for commercial paper related to SDQD, and the remaining $122.7M becomes part of the campus' unrestricted cash balance. These assumptions result in positive operating budget impacts including interest revenue of $1.8M, interest expense reduction of $0.3M, and ground lease revenue of $1.0M. Additional assumed costs associated with the sale include insurance of $75k, and commercial paper payments of $1.0M (due to delayed close of deal).

**5-Year Trend of Annual Operating Revenues, Expenses + FY24 Budget**

**($ in Thousands)**

| Revenues | Actual | | | | Projected | Budget | | |
|---|---|---|---|---|---|---|---|---|
| | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | $ CH. | % CH. |
| Gross Tuition & Fees | 245,734 | 252,603 | 256,240 | 244,867 | 259,537 | 269,238 | 9,700 | 3.7% |
| Tuition Discounts | (64,836) | (69,973) | (74,079) | (76,828) | (86,292) | (87,458) | (1,166) | 1.4% |
| *Discount Rate* | *26.4%* | *27.7%* | *28.9%* | *31.4%* | *33.2%* | *32.5%* | | |
| Net Tuition & Fees | 180,898 | 182,630 | 182,161 | 168,039 | 173,246 | 181,779 | 8,534 | 4.9% |
| Grants | 53,536 | 54,732 | 58,185 | 63,564 | 75,456 | 73,153 | (2,303) | -3.1% |
| Sales & Service, Educational | 4,312 | 1,744 | 1,262 | 1,927 | 2,343 | 2,016 | (327) | -13.9% |
| Auxiliary Enterprises | 12,315 | 10,381 | 3,230 | 13,568 | 14,891 | 15,161 | 270 | 1.8% |
| Other Operating | 2,218 | 3,138 | 2,586 | 2,677 | 2,677 | 3,779 | 1,102 | 41.2% |
| State | 140,659 | 146,284 | 152,833 | 158,380 | 187,237 | 203,328 | 16,091 | 8.6% |
| Other Non Operating | 40,925 | 45,105 | 69,769 | 78,053 | 44,540 | 43,006 | (1,534) | -3.4% |
| **Total Revenues** | **434,863** | **444,014** | **470,026** | **486,208** | **500,391** | **522,223** | **21,832** | 4.4% |
| % Growth | 2.3% | 2.1% | 5.9% | 3.4% | 2.9% | | | |
| **Expenses** | | | | | | | | |
| Salary & Fringe | 269,723 | 269,734 | 270,486 | 274,008 | 298,011 | 326,207 | 28,196 | 9.5% |
| Non-Personnel | 98,428 | 96,680 | 90,822 | 118,316 | 121,628 | 114,691 | (6,937) | -5.7% |
| Scholarships & Fellowships | 17,983 | 20,771 | 30,189 | 35,893 | 18,141 | 17,441 | (700) | -3.9% |
| Depreciation | 28,010 | 32,460 | 32,765 | 34,280 | 34,390 | 39,984 | 5,594 | 16.3% |
| Interest | 16,823 | 19,312 | 18,730 | 19,209 | 19,220 | 18,682 | (538) | -2.8% |
| **Total Expenses** | **430,967** | **438,957** | **442,992** | **481,706** | **491,391** | **517,005** | **25,615** | 5.2% |
| % Growth | 1.6% | 1.9% | 0.9% | 8.7% | 2.0% | | | |
| **Operating Margin** | | | | | | | | |
| UMass OM Calc Revenues | 434,863 | 444,014 | 470,026 | 486,208 | 500,391 | 522,223 | 21,832 | 4.4% |
| Total Expenses | 430,967 | 438,957 | 442,992 | 481,706 | 491,391 | 517,005 | 25,615 | 5.2% |
| **Surplus / (Deficit)** | **3,896** | **5,057** | **27,035** | **4,502** | **9,000** | **5,218** | **(3,783)** | -42.0% |
| **UMass OM Calc** | **0.9%** | **1.1%** | **5.8%** | **0.9%** | **1.8%** | **1.0%** | | |

## Fiscal 2024 Budget Revenue Assumptions

Tuition & Fee Revenue

Budgeted changes in Tuition & Fee revenue for FY24 are driven by the continued impact of the change in tuition & fee structure implemented beginning with the fall 2022 semester (see page 12 above), changes in the mix of enrollment with increasing numbers of out-of-state and international students returning post-COVID, and an annual Board of Trustees-approved increase in tuition & fee rates (described below).

With those effects, Gross Tuition & Fees are expected to increase in FY24 by nearly $10M, or 3.7%. With an increase in tuition discounting expected, Net Tuition & Fees are planned to increase by $8.5M, or 4.9%.

*Tuition & Mandatory Fee Rates*

Tuition & Mandatory Fee rates are budgeted to increase by 2.5% for undergraduate in-state students and 3.0% for undergraduate out-of-state and all graduate students. The increase in rates alone increases Net Tuition & Fees by an estimated $4.5M.

*Fall Enrollment:*

Undergraduate

In-state enrollment is budgeted to decline by -1.3% based on recent enrollment trends likely somewhat driven by the declining number of high school graduates nationally. The continued decline in this enrollment pool is budgeted to reduce Net Tuition & Fee revenue by -$1.3M.

Out-of-state enrollment is budgeted to increase 9.9% based on an anticipated continuation of the recent increase in enrollment of new and continuing international students post-COVID. The enrollment shift increases budgeted Net Tuition & Fee revenue by $5.2M.

Graduate

In-state enrollment is budgeted to increase by 0.2% based on a slight increase in new Master's degree students. The enrollment shift increases Net Tuition & Fee revenue by <$0.1M.

Out-of-state enrollment is budgeted to increase 2.4% based on an anticipated increase in new Master's degree students and in continuing students based on prior year increases. The enrollment shift increases Net Tuition & Fee revenue by $0.5M.

*Spring enrollment:*

An overall "melt" from fall enrollment is planned at -7.8% commensurate with prior year actual trends.

*Summer enrollment:*

Budgeted Summer Tuition & Fee revenue is based on the anticipated impacts of a pricing structure change beginning in Summer 2023 which includes an assumed price-elasticity of demand impact on enrollment of -22.9%. The projected decrease in enrollment is planned reduce revenue, however, early projections from actual FY23 Summer revenue show a smaller decline in enrollment and a larger increase in revenue.

## State Appropriation Revenue

State Appropriation revenue is planned to increase $16.1M or 8.6% (net). At the time of approval of this budget, the state budget had not been approved. Assumptions for state appropriation revenue will be reviewed at the end of the first quarter of FY24.

This increase is due to the following changes:

- Collective Bargaining at an effective annual rate of 6.08% (4.0% on 7/1/23 and additional 4.0% on 1/1/24) which results in an increase of $7.0M in base appropriation.
- An increase in Inflationary funding of 3.0% or $3.5M
- A change in the fringe reimbursement rate from 39.5% in FY23 to 43.4% in FY24, which results in an increase of $9.1M
- A decrease in ARPA funds of -$1.6M (excludes fringe of $3.6M in FY24 vs. $2.1M in FY23)

- A reduction in one-time collective bargaining adjustment in FY23 related to FY21-22 of -$1.2M (allocation was given in FY23 for prior years)
- Reduction in Restricted (state specials: MOPC, Collins, etc.) as FY24 was planned without COVID EEPF -$0.7M

Grant & Contract Revenue

Grant & Contract revenue is held flat with the FY23 forecast at the time the FY24 Budget was developed. Grants and Contracts performance has significantly increased in FY23 compared to the budget and prior and the FY24 plan takes this into consideration which will be reviewed at the end of the first quarter of FY24. There has been a concerted effort on campus to increase our research profile and Principal Investigators (PI's) have been submitting more proposals, resulting in more awards.

Sales & Services, Educational

Sales & Services, Educational revenue is also held flat with FY23 forecast at the time the FY24 Budget was developed.

Auxiliary

Auxiliary revenue is income-based on projected activity and held flat with the FY23 forecast at the time the FY24 Budget was developed. The largest revenue streams in this category are Parking and Dining revenues accounting for 85% of revenues are budgeted to be $5.6M and $7.3M, respectively.

Other Operating Revenue

Other Operating Revenue is budgeted flat with the FY23 forecast with additional planned revenue for ground lease of the Bayside Exposition site for the Dorchester Bay City project beginning in the 3rd quarter of FY24 totaling $1.0M for the half year. While the campus has planned to receive $192.5M at the time of the Dorchester Bay City project closing, the revenue associated with this transaction will be recognized over the term of the lease (99 years), beginning in FY24.

Other non-operating Revenue

Other non-operating revenue held flat with FY23 forecast at the time of the budget submission, which represents a decline from FY23 of $1.5M or 3.4%.

*Gifts* revenue is based on the latest projections from University Advancement with major categories budgeted as follows:

- $0.9M in unrestricted development giving
-$1.9M in restricted projects and scholarships

-$0.4M in other restricted gifts

*Investment income* is based on guidance from President's office combined with an $1.8M in additional revenue assumed related to a cash influx due to the long-term lease of the Bayside Exposition property to the developer. The transfer of this property is expected to occur in the 3rd quarter of FY24.

*Endowment income* is based on Foundation forecast provided by President's Office which assumes an $0.5M increase. The increase is due to additional endowments received and an increase in investment returns. The endowment income for new endowments has a year lag before it is distributed. FY24's endowment income budget includes distributions totaling $256,435 for 36 new endowments that were created in FY22.

Non-Operating Federal Grants consisting mostly of Pell/SEOG, are budgeted flat with FY23 projection. There is no assumption of continuing federal stimulus funds (HEERF) but there is assumed to be $3.0M in state ARPA funds in FY24 as part of the State Appropriation.

**Fiscal 2024 Budget Expense Assumptions**

<u>Payroll & Fringe Expense</u>

Salary & Fringe expenses are planned to increase by $28M or 9.5%.

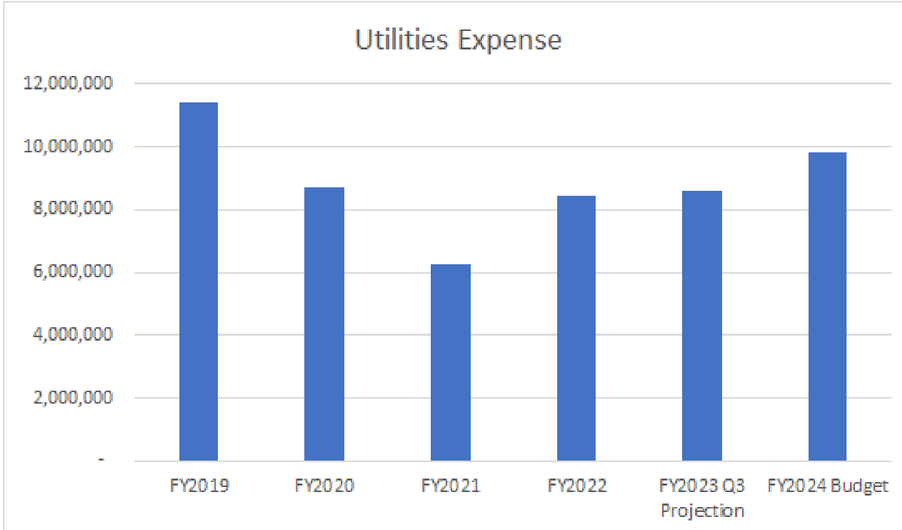
The increase in Salary & Fringe is driven by collective bargaining parameters from the State and System Office for a 1-year contract extension for FY24. The guidance calls for two increases, 4.0% on 7/1/2023 and an additional 4.0% on 1/1/2024, these increases result in an impact of $16.0M.

Fringe rate assumptions include an increase in general fringe rate from 39.50% in FY23 to 43.36% in FY24 and a payroll tax fringe rate increase from 1.85% in FY23 to 2.45% in FY24, with associated expense due to fringe rate change totaling $8.7M.

FTE for staff are budgeted to remain commensurate with the latter half of FY23, while faculty FTE are budgeted commensurate with full year FY23, this results in lower overall vacancy savings vs. FY23 of $3.3M. There were no additional positions approved in the budget process.

<u>Non-Personnel</u>

Unless otherwise detailed below, the overarching assumption is that most unrestricted non-payroll expense budgets will remain flat in FY24, with restricted expenses commensurate with revenue. There are specific assumptions and strategic investments that are detailed below. Utilities expenses were budgeted based on inputs from energy consultant Competitive Energy Services (CES) the estimate is $9.8M which represents a $1.2M cost increase vs. the Q3 projection. The estimate uses conservative usage and rate assumptions. Utility costs declined precipitously with COVID but have increased with increased on-campus activity and pricing. The cost has not returned to FY19 levels due to investments of staff and software in the building controls area that have enabled the university to have increased management of its buildings to lower consumption.




Other Budgeted assumptions include inflationary cost increases of $2.5M, increased expenses for international student recruitment (Shorelight) of $0.5M commensurate with increased enrollment from new and continuing students per the contractual agreement with the vendor, $0.2M for new maintenance expenses for the Substructure Demolition and Quadrangle Development (SDQD) project, $0.4M related in Athletics for added Title IX compliance expenses , $0.1M for insurance expenses related to the sale of the Bayside Exposition Center property. There are some significant savings compared to the prior year as some one-time strategic planning investments, such as the cost of the capital master plan, no longer continue.

Approved strategic investments assumed as part of the total non-payroll expense profile include $0.3M for strategic plan development and $0.3M for restorative justice. These represent on-going strategic commitments made in prior year budgets.

**Initiative: Use of HEERF Funds for Student Balances**

A positive note in Non-Personnel is the continuing positive financial effects for both students and the university from the use of HEERF funds for the disposition of student account balances generated during the COVID period. <u>The use of Federal COVID Institutional stimulus funds in this way amounted to approximately $6.0M in debt reduction for students and a reduction in the amount of the allowance the university must take for student accounts receivable for years to come.</u>

<u>Depreciation & Interest</u>

Depreciation expenses are derived by using depreciation schedules from the UMass Building Authority (UMBA) and layering on locally managed depreciation schedules. UMBA manages the depreciation schedule for larger bond funded projects managed on behalf of the campus usually financed by debt issues. A major assumption in the FY24 budget is that the on-going SDQD project will be in service at the start of the fiscal year creating an impact of $2.7M in new depreciation costs. Local (non-UMBA) depreciation cost is calculated by using the existing local asset schedule and assuming, based on the approved capital plan, amounts for new assets that will be put in service during FY24. Major local additions in FY24 include the Network Edge Refresh project, new research equipment, the McCormack building roof project, the Service & Supply building loading dock, Campus Center building duct work, repair of the HarborWalk, and other campus projects to enable the completion of the SDQD project. Total depreciation is $40.0M based on these assumptions.

Interest expenses are derived by using existing debt schedules from UMBA. The FY24 budget assumes no new long-term borrowing. Proceeds from the Bayside site sale are assumed to l be used to pay off short-term borrowing through commercial paper of $52.8M and remaining existing long-term debt from the original purchase of the Bayside site of $16.9M. These adjustments his result in net interest savings of $0.3M.

**FY24 Budget Strategies & Solutions**

FY24 estimates of total revenue and expense for the campus showed a structural shortfall of $5.6M to achieve the targeted 1.0% operating margin of $5.2M for the fiscal year. Some planned solutions are one-time in nature and will only provide support for the targeted margin in FY24. This means that in future budget years, without structural improvements to revenue and expenses, there will be a need for additional long-term strategies to ensure achievement of the required 2.0% operating margin by FY25. Permanent strategies will provide relief in FY24 and subsequent budget years. Additional details of strategies and solutions follow:

<u>One-Time Strategies & Solutions</u>

In FY24 the campus has been granted the ability to use stimulus funds from the state under the American Rescue Plan Act of 2021 (ARPA). These funds originated from the federal government but were allocated to the State of Massachusetts, which then allocated a portion to UMass through the state appropriation. Because these funds are coming from the state, on the income statement it appears as an increase to State Appropriation revenue above.

The total amount of these one-time funds is $3.0M inclusive of cost of fringe benefits when used for salary as planned.

<u>Permanent Strategies & Solutions</u>

The campus will continue to assess the possibility of new or increased revenue from all sources. Much has been done on the structure of tuition & fee revenue in the past year (noted above on page 12) and the campus continues to develop supports for students to understand and plan for the cost of college. These efforts should increase retention by reducing the need to stop-out for financial reasons and reduce the number of students with delinquent account balances. There are also plans to implement an eCommerce platform to increase the ease of non-student payments for sale of educational and auxiliary services. The campus also plans to hire a new Assistant Provost for Community and Executive Education who will be charged with, among other things, developing new non-degree educational offerings aimed at employees and the community at large.

Reorganization is the most significant cost strategy planned in the budget. The goal is to gain efficiencies by analyzing current organizational structures, often through the partnered use of third-party experts, to determine where efficiencies can be gained through combining/restructuring business processes/responsibilities. This strategy would produce structural savings that can also assist the campus in toward achieving the required 2.0% operating margin by FY25.

Another strategy includes foregoing payment of costs of related to the operation of UMass Online, whose operations have been discontinued effective July 2023. The campus will instead schedule and market its online courses with its own existing resources rather than centrally at the system level.

Shifting use of endowment funds to budget relieving activity is a strategy to provide ongoing cost savings through the use of existing endowment funds for expenses, in the salary and financial aid areas, offsetting unrestricted general funding sources. The assumption is that these movements would be made on a permanent basis and the unrestricted expense savings would be realized in future years as funding continues.

The final strategy is to increase auxiliary parking revenue by utilizing previously implemented enforcement strategies and with recognition of more on campus activity.

**Key Campus Ratios**

Ratios can be used to quantify an organization's financial health and compare it to others. The below key budget ratios are used to monitor financial performance and are reported out to the University Board of Trustees regularly.

Boston campus key ratio performance:

- The campus' **operating margin** has been 0.9% or higher for every year since 2019. The Board of Trustees has required campuses to have a 2.0% operating margin by FY25 and tracking this ratio on a multiyear basis measures progress toward that goal.
- Board of Trustees policy limits campus **debt service burden** to 8%. The campus has been able to meet this requirement consistently since FY2019 but does need to keep this limit in mind as future capital planning takes place.
- **Financial Leverage**. This ratio has continued to improve since FY19. Total debt in FY24 is planned to grow due to the use of short-term commercial paper required for the SDQD project. This debt is planned to be extinguished by funds received from the closing of the Bayside project.

<u>Campus key ratios, FY19-22, FY23 Projected and FY24 Budget:</u>

| | Actual | | | | Projection | Budget |
|---|---|---|---|---|---|---|
| **Key Ratio** | **FY2019** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** |
| Operating Margin (%) | 0.9% | 1.1% | 5.8% | 0.9% | 1.8% | 1.0% |
| *Operating Margin ($)* | *3,896* | *5,057* | *27,035* | *4,359* | *9,000* | *5,218* |
| Operating Cash Flow Margin (%) | 11.2% | 13.3% | 17.3% | 13.1% | 12.6% | 12.6% |
| *Operating Cash Flow Margin ($)* | *46,650* | *56,427* | *75,716* | *59,035* | *60,274* | *63,482* |
| Debt Service Burden (%) | 6.9% | 7.5% | 4.2% | 6.6% | 7.1% | 6.7% |
| Debt Service Coverage (x) | 1.6 | 1.7 | 4.0 | 1.9 | 1.7 | 1.8 |
| Financial Leverage (x) | *0.32* | *0.34* | *0.40* | *0.43* | *0.47* | *0.55* |
| Total Debt ($ in thousands) | *616,132* | *606,847* | *611,943* | *615,449* | *578,905* | *612,837* |
| Total Cash & Investments to Op Expenses (x) | 0.48 | 0.50 | 0.59 | 0.59 | 0.58 | 0.67 |

Key budget ratio definitions and calculation methods:

| Key Ratio | Description | Calculation |
|---|---|---|
| Operating margin | Indicates the excess margin (or deficit) by which annual revenues cover annual expenses (excluding unrealized gains or losses) | Total revenues – total expenses / Total revenues |
| Operating cash flow margin | Measures net income (before non-cash expenses) relative to operating revenue | (Total revenues –total expenses) + depreciation + interest / Total revenues |
| Debt service burden | Compares the relative cost of borrowing to overall expenditures | Debt service (P&I) / Total expenses |
| Debt service coverage | Measures the ability to make debt service payments from annual operations | (Total revenues –total expenses) + depreciation + interest / Debt service (P&I) |
| Financial leverage | Measures the ability to repay bondholders from wealth that can be accessed over time or for a specific purpose | Cash & investments / (Total LT Debt + Outstanding CP/LOC + Leases + P3 + Adjusted Net Pension Liability) |
| Total cash & investments to expenses | Measures the extent to which the University can rely on wealth to meet expenses over time | Cash & investments / Total Expenses |

**Conclusion**

The FY24 Budget as submitted and approved by the Board of Trustees is planned to end the year with a surplus, stepping toward the 2% Operating Margin requirement set by the System Office for the close of FY25. The budget contains a small amount of non-recurring stimulus funds which will be extinguished by the end of the FY24 budget year. Further, the budget includes the impacts of a substantial influx of cash from the long-term lease of the campus' Bayside Exposition Center property for development of the Dorchester Bay City project.

The FY24 budget will be reviewed after Q1 upon completion of the State budget and final enrollment counts in September and monitored quarterly for adherence to benchmarks.

In the fall, the campus, along with the other campuses, will submit a 5-year forecast (FY24-28) as well as a multi-year capital plan to the System Office for review and discussion and Board of Trustees approval.

University of Massachusetts Boston

Kathleen Kirleis, Vice-Chancellor of Administration & Finance
Chris Giuliani, Associate Vice-Chancellor of Administration & Finance
Matthew Krevis, Director, Office of Budget & Financial Planning
Teresa Chiba, Deputy Director, Office of Budget & Financial Planning
Jenny Lui, Senior Budget Analyst, Office of Budget & Financial Planning
Jeffrey Pen, Budget Analyst, Office of Budget & Financial Planning