Financial Transparency
Town Hall Meeting

March 16, 2015
Submit Questions

cornell.edu/video/townhall
Executive Summary

• Seemingly contradictory realities reinforce the need for a transparent conversation regarding university finances

• Goal is to engage the campus community in a discussion of values and priorities to make critical choices
State of University Finances

• University uses cash basis accounting for budgeting, however is required to use accrual basis for audited financial statements

• Consolidated operating budgets (Ithaca and WCMC on cash basis) are balanced for fiscal year 2015
  – projected margins as of Jan 31, 2015: Ithaca=$3.5M; WCMC=$5.9M
  – university-wide margin: $9.4 million of a budget of $3.8 billion (~0.25%)

• University financial statements (accrual basis) are at an operating loss
  – not covering our depreciation expense, yielding insufficient deferred maintenance
  – accrual of expenses not yet incurred
Ithaca campus responds to 2008 financial crisis

![Graph showing financial data from FY09 to FY14, with actual net from operations and projected deficit with no action taken as of FY09.](image-url)
Contents

University Overview

• Size and scale
• Revenue and expense profile

Financial Content and Outlook

• Financial strengths and challenges
• Looking back
• Looking forward
## Size and Scale: FY14 Key Facts

### University Wide

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Revenue</td>
<td>$3.8 billion</td>
</tr>
<tr>
<td>Long Term Investment Pool</td>
<td>$5.9 billion</td>
</tr>
<tr>
<td>Book Value of Physical Plant (net of depreciation)</td>
<td>$3.7 billion</td>
</tr>
<tr>
<td>Employment – headcount</td>
<td>15,700</td>
</tr>
<tr>
<td>Research Expenditures</td>
<td>$777 million</td>
</tr>
</tbody>
</table>
## Cornell has diverse revenue sources

(dollars in millions)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>ITHACA</th>
<th>WCMC</th>
<th>TOTAL CU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY14 Operating Revenue</strong></td>
<td>$'s</td>
<td>$'s</td>
<td>$'s</td>
</tr>
<tr>
<td>Tuition &amp; Fees (Gross)</td>
<td>890</td>
<td>39</td>
<td>929</td>
</tr>
<tr>
<td>Physicians' Organization</td>
<td>0</td>
<td>774</td>
<td>774</td>
</tr>
<tr>
<td>Sponsored Programs</td>
<td>416</td>
<td>238</td>
<td>654</td>
</tr>
<tr>
<td>Educational Activities &amp; Other</td>
<td>155</td>
<td>388</td>
<td>543</td>
</tr>
<tr>
<td>Investment Distribution</td>
<td>266</td>
<td>48</td>
<td>314</td>
</tr>
<tr>
<td>Gifts</td>
<td>165</td>
<td>66</td>
<td>231</td>
</tr>
<tr>
<td>Housing, Dining &amp; Other Auxiliaries</td>
<td>151</td>
<td>50</td>
<td>201</td>
</tr>
<tr>
<td>State and Federal Appropriations</td>
<td>149</td>
<td>0</td>
<td>149</td>
</tr>
<tr>
<td>Total FY14 Operating Revenue</td>
<td>2,192</td>
<td>1,603</td>
<td>3,795</td>
</tr>
</tbody>
</table>

Source: Sources & Uses report (Ithaca & WCMC)
Ithaca Campus FY14 Operating Revenues
$2.2 Billion

- Tuition & Fees: $890 M (41%)
- Sponsored Programs: $416 M (19%)
- Investment Distribution: $267 M (12%)
- Gifts: $165 M (7%)
- Educational Activities & Other: $155 M (7%)
- Housing, Dining & Other Auxiliaries: $151 M (7%)
- State & Federal Appropriations: $149 M (7%)

Source: Ithaca Sources & Uses report
Approximately two-thirds of expenses: People and Space

Ithaca Campus FY14 Operating Expenses
$2.2 Billion

- People
  - Wages & Benefits
    $1,128 M (52%)
- Space
  - Renovation & Construction
    $96 M (4%)
- Financial Aid
  - $379 M (17%)
- General Expenses
  - $278 M (13%)
- Utilities, Rent & Leases
  - $114 M (5%)
- Debt Service
  - $75 M (3%)
- Facilities Renovation & Construction
  - $96 M (4%)
- Repair & Maintenance, $59 M, 3%
- Other
  - $60 M (3%)

Source: Ithaca Sources & Uses report
Where Does Undergraduate Tuition Go?

• Undergraduate tuition covers 40% of the cost of the overall campus operation, including:
  – Paying for the faculty and staff who teach, provide student services, and help operate the campus
  – Maintaining libraries, classrooms, laboratories, studios, and other campus buildings
  – Helping to provide need-based financial aid, thereby enhancing campus socio-economic diversity

• The remainder (60%) of the cost of campus operation is paid for by endowment income, gifts, grants, state support and other revenue sources
Contents

University Overview

• Size and Scale
• Revenue and expense profile

Financial Content and Outlook

• Financial strengths and challenges
• Looking back
• Looking forward
Entire Higher Education Sector is Facing Challenges

• **Moody’s** “outlook for the four-year US Higher Education sector is **negative**. This outlook reflects our expectations for the fundamental business, financial and economic conditions in the sector over the next 12-18 months...The outlook for the entire sector has been negative since January 2013.” (Report dated December 1, 2014)

• “**Standard & Poor's** Ratings Services' 2015 outlook for the U.S. not-for-profit higher education sector **remains negative** as colleges and universities struggle to balance the demands of their expenditures while addressing student affordability and access. We believe this tug-of-war in an increasingly competitive market will continue to compress overall operating performance...” (Report dated January 15, 2015)

We maintain a **negative outlook for the US higher education sector** due to lingering **stagnation of operating revenue**, coupled with **mounting expense pressures** and anticipated weakening of overall operating performance in 2015... Constrained net tuition revenue growth is a key driver of our negative outlook, but **most revenue streams are growing at a slower pace and are more competitive to secure**, including state funding, sponsored research and patient care revenue for those universities that own hospitals or faculty practice plans. (Moody’s report dated December 1, 2014)
# Cornell Strengths and Challenges

## Strengths
- Balanced overall operating budget
- Diverse revenue sources:
  - Fundraising
  - Tuition
  - NYS support
  - Sponsored research
  - Endowment earnings
  - WCMC clinical practice
- Growing NYC presence
- Diversity of programs
- Strong student demand

## Challenges
- Not all units have a balanced operating budget; including provost
- Financial statement operating deficit
- Little financial flexibility for new investments
- High percentage of assets in facilities as compared to peers
- Some aging facilities/deferred maintenance
- Constrained federal research funding and state appropriations
- Below average financial ratios (debt, expendable resources)
- Increasing reliance on short-term strategies to balance operating budget
Robust Fundraising – Restricted Use

University wide capital campaign (2006-2015)

$5.8 billion achieved to-date\(^1\)

- **Endowment**
  - $1.3 B
  - 22%

- **Pledges**
  - $1.2 B
  - 21%

- **Current funds (spent in year received)**
  - $2.0 B
  - 35%

- **Capital**
  - $0.6 B
  - 10%

- **Deferred/ Gift-in-kind**
  - $0.5 B
  - 9%

- **Bequest/ Non-recordable pledge**
  - $0.2 B
  - 3%

85% of dollars raised in any given year is restricted

Ithaca campus portion = $3.3 billion

\(^1\) Campaign numbers as of 2-12-15
Looking Back
University Priorities: Strategic Plan 2010-2015

1. Faculty renewal (in context of academic priorities and substantial retirements)

2. Identify departments/fields of critical importance and establish position of world leadership, prevent others from losing stature

3. Create culture to support teaching in every department across campus

4. Develop stronger connections across colleges, enhancing educational opportunities for students and quality/stature of disciplines or fields

5. Enhance infrastructure in support of research, scholarship, and creativity

6. Make significant progress toward a more diverse faculty, student body, and staff

7. Connect outreach and public engagement with Cornell’s areas of strength in research, scholarship, and education
Cornell has enjoyed significant investment growth over several decades.

Long Term Investment Pool (LTIP) at Market Value
(mainly endowment)

Fiscal Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$0.3</td>
</tr>
<tr>
<td>1984</td>
<td>$0.4</td>
</tr>
<tr>
<td>1989</td>
<td>$0.8</td>
</tr>
<tr>
<td>1994</td>
<td>$1.2</td>
</tr>
<tr>
<td>1999</td>
<td>$2.8</td>
</tr>
<tr>
<td>2004</td>
<td>$3.1</td>
</tr>
<tr>
<td>2009</td>
<td>$3.8</td>
</tr>
<tr>
<td>2014</td>
<td>$5.9</td>
</tr>
</tbody>
</table>

Source: University annual report - notes
While the endowment’s market value is significant, only a small portion can be accessed on an annual basis.

### FY14 LTIP Market Value:

<table>
<thead>
<tr>
<th>Endowment Distribution</th>
<th>Flexible</th>
<th>Inflexible</th>
</tr>
</thead>
<tbody>
<tr>
<td>($0.3B)</td>
<td>24%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Endowment Flexibility: 76% restricted

To sustain the endowment’s purchasing power for future generations, Cornell targets a **spending rate equivalent to 5.75%** of the endowment’s market value, based on an assumed **7% long-term market return**.

More than **76% of the endowment is restricted** for donor-specified purposes (e.g., financial aid, faculty support, etc.)

Source: University annual report – Statement of Activities + notes
Endowment per student

Source: University annual report - notes
FY13 peer endowment per student

Source: YUBA Group

[1] Consolidated numbers
Ithaca campus federal sponsored revenues have had modest growth over the past decade.

Data includes $116.5 million in ARRA funding received February 2009 – December 2013.

Source: University supporting financial schedules
Cornell’s Research Expenditures and Ranking

2014 ranking is not available
Source: 1989, 1990, 2013, 2014 = NSF published data; all other years = Cornell published data
Cornell’s FY14 Research Expenditures by funding source

- Federal: 56%
- Non-federal: 21%
- NYS & Fed Approp: 8%
- Cornell: 15%

Total: $777 M
Cornell’s FY14 Research Expenditures by funding source

- DHHS: 26%
- NSF: 17%
- Cornell: 16%
- Foundations: 12%
- Other: 8%
- State approp: 7%
- DoD: 4%
- USDA: 3%
- DOE: 3%
- Corporations & Trade Assoc: 4%

Total: $777 M
Cornell’s New York State appropriated revenues have recently declined

NYS Appropriations

Source: University supporting financial schedules
University wide commitment to financial aid remains strong

Undergraduate Financial Aid Expense

Fiscal Year

Millions

Source: University Budget Office
Median Ratio of Net Cost to Price, Endowed Sector

Income Group (US Income Quintiles)

Q1 Q2 Q3 Q4 Q5 Not Aided

Median Net Cost

Academic Year

Shaded areas approximate U.S. recessions
Vertical lines indicate changes to aid policy
FY15 data based on Fall in-year forecast
Undergraduate Debt is Limited

Maximum annual loan levels in financial aid packages correspond to family income:

<table>
<thead>
<tr>
<th>Annual Loan Cap</th>
<th>Family Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>$60,000 or less</td>
</tr>
<tr>
<td>$2,500</td>
<td>$60,001 to $75,000</td>
</tr>
<tr>
<td>$5,000</td>
<td>$75,001 to $120,000</td>
</tr>
<tr>
<td>$7,500</td>
<td>Above $120,000</td>
</tr>
</tbody>
</table>

% of enrolled Cornell students borrowing during the academic year:

- **2014**: 33%
- **2007**: 43%

Debt at graduation (students who borrowed):

- **NATIONAL 2013* MEAN**: $29,708
- **NATIONAL 2013* MEAN PRIVATE NONPROFIT ONLY**: $28,400
- **CORNELL 2014 MEAN**: $21,411
- **CORNELL 2014 MEDIAN**: $14,890

% of enrolled students graduating with loan debt:

- **NATIONAL 2013***: 69%
- **CORNELL 2014**: 45%
- **CORNELL 2007**: 54%

*National represents all students graduating from four-year colleges

Cornell figures = students graduating with loan debt packaged through the financial aid office from federal, Cornell, & private lenders

*National represents all students graduating from four-year colleges
# Ithaca campus operating expenses: fixed and predictable

<table>
<thead>
<tr>
<th>($'s in millions)</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Benefits</td>
<td>1,041</td>
<td>1,083</td>
<td>1,128</td>
</tr>
<tr>
<td>Undergraduate Financial Aid</td>
<td>226</td>
<td>241</td>
<td>235</td>
</tr>
<tr>
<td>Graduate Financial Aid</td>
<td>138</td>
<td>140</td>
<td>143</td>
</tr>
<tr>
<td>General Expense</td>
<td>367</td>
<td>349</td>
<td>381</td>
</tr>
<tr>
<td>Utilities, Rent and Taxes</td>
<td>100</td>
<td>105</td>
<td>115</td>
</tr>
<tr>
<td>Debt Service</td>
<td>112</td>
<td>104</td>
<td>99</td>
</tr>
<tr>
<td>Other</td>
<td>48</td>
<td>108</td>
<td>88</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>2,032</td>
<td>2,129</td>
<td>2,189</td>
</tr>
</tbody>
</table>

Above expenses associated with Sponsored Research

<table>
<thead>
<tr>
<th></th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>401</td>
<td>387</td>
<td>416</td>
</tr>
</tbody>
</table>
Rising debt levels have limited the University’s flexibility by adding fixed cost and reducing future borrowing capacity.

- Current annual external debt service is over $140 million

Source: University annual report - Statement of Financial Position
Rating Agencies – Credit Analysis

Moody’s
• 2010 assigned a “negative” outlook
• July 2012 removed “negative” outlook and upgraded to “stable”

S&P
• Downgraded in March 2009 and assigned a “stable” outlook
• November 2012 and March 2014 reaffirmed AA rating with “stable” outlook

Importance of Ratings
• Impacts borrowing costs
• Alumni and donors pay attention; viewed as a measurement of ability to manage University

Ratings Scale

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>Standard and Poor’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
</tr>
<tr>
<td>Aa1</td>
<td>AA+</td>
</tr>
<tr>
<td>Aa2</td>
<td>AA</td>
</tr>
<tr>
<td>Aa3</td>
<td>AA-</td>
</tr>
<tr>
<td>A1</td>
<td>A+</td>
</tr>
<tr>
<td>A2</td>
<td>A</td>
</tr>
<tr>
<td>A3</td>
<td>A-</td>
</tr>
<tr>
<td>Baa1</td>
<td>BBB+</td>
</tr>
<tr>
<td>Baa2</td>
<td>BBB</td>
</tr>
<tr>
<td>Baa3</td>
<td>BBB-</td>
</tr>
<tr>
<td>Below Investment Grade</td>
<td>Below Investment Grade</td>
</tr>
</tbody>
</table>

Credit Quality
Looking Forward
Seemingly contradictory realities reinforce the need for a conversation about university finances

- Constrained federal and state budgets
- Rating agency pessimism and downgrades
- Near-term financial projections
- Significant increase in compliance requirements

- Long-term positive investment performance
- Campaign/sesquicentennial success
- Increasing demand for Cornell education
## Possible Options Toward Enhanced Financial Flexibility

<table>
<thead>
<tr>
<th>Increase revenues</th>
<th>Decrease expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Add academic programs</td>
<td>• Academic/research program changes</td>
</tr>
<tr>
<td>• Increase class size</td>
<td>• Procurement savings</td>
</tr>
<tr>
<td>• Philanthropy</td>
<td>• Financial aid</td>
</tr>
<tr>
<td>• Increase number of research proposals</td>
<td>• Reduce construction</td>
</tr>
<tr>
<td>• Industry/foundation research funding</td>
<td>• Outsourcing</td>
</tr>
<tr>
<td>• Leverage assets (space, IP)</td>
<td>• Administrative aggregations</td>
</tr>
<tr>
<td>• Other ?</td>
<td>• Other ?</td>
</tr>
</tbody>
</table>
Looking Forward

The campus community must come together to agree on values and priorities to make critical choices

- Consider all existing revenues/expenses
- Identify potential new revenue sources
- Refocus capital planning towards infrastructure upkeep
- Continue to review administrative processes across the university to reduce redundancies
- Manage workforce levels and align with strategic priorities
Thank You