



200 YEARS

INDIANA UNIVERSITY BICENTENNIAL

Financial Outlook & University Finances October 16, 2019

ACE & TIAA Institute Report

“Too Important to Fail, Too Big to be Complacent”

NFP Colleges & Universities:

- Are not businesses
- Are subject to consolidating markets
- Rich are getting richer
- Big are getting bigger
- Prestige matters
- Ranking matters
- Those at the top will adapt:
 - Past = Price
 - Future = Volume

ACE & TIAA Institute Report

“Too Important to Fail, Too Big to be Complacent”

How many institutions are at risk?

- Analyzed IPEDs data for 2,320 institutions
- Less than 10% are at risk of closing or merging
- Next 20% are struggling but not in immediate danger
- Discounting and State appropriations are a factor
- Retention
 - Top of market 1st to 2nd Year 90%+
 - 2016 - 50% of institutions lost 25% or more

Students at Risk

- 2320 institutions = 13,016,205 undergraduates
- Only 7% attended institutions facing near term closure



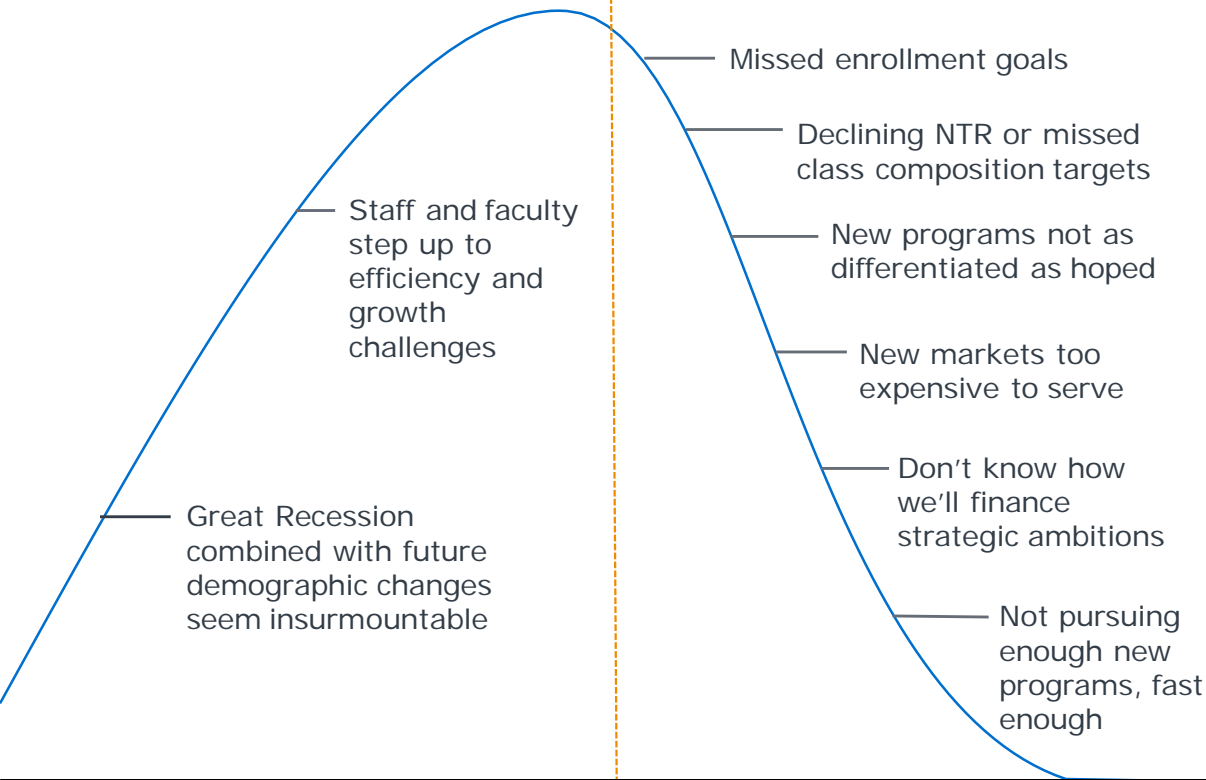
Reflecting on the Last Decade in Higher Ed

RESOLVING TO A "NEW NORMAL"

"We found ways to adapt during and after the Great Recession."

HITTING A WALL

"The market is worsening faster than our capacity for change has caught up."



EAB - Market Forces Threaten Traditional Business Models

Declining Demographics

36 States will see slower growth or declines in numbers of high school graduates (2016-2031)

10% Estimated decrease in number of 18 to 21-year-old Canadians between 2011 and 2020

Increasing Price Sensitivity

69% Percentage of families who **eliminated institutions from selection due to cost** in 2017

NACUBO-Reported Discount Rate for FTFT Freshmen

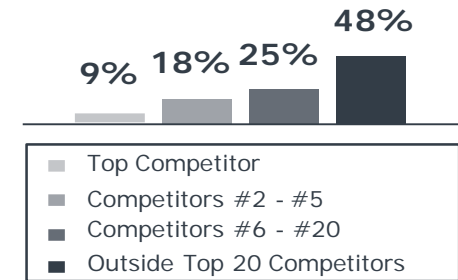
39.1% → **49.9%**
in 2007-2008 in 2017-2018¹

Heightening Undergraduate Competition

108%

Increased applications from 2001-2014 with just an 11.6% increase in prospects

Where Admitted Students Who Did Not Deposit Went
(n = 101,905)



Unsustainable New Student Pipelines

Master's

7x

Growth in awarded graduate certificates over master's degrees from 2014 to 2015

International

45%

of US institutions reported drop in new international student enrollment in fall 2017, average decline of 7%

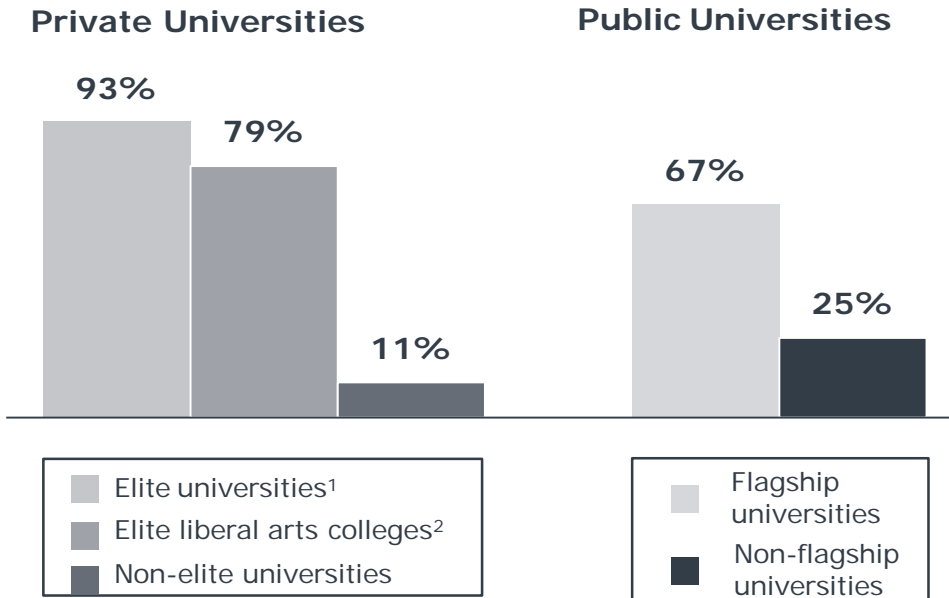
EAB - Sustainability Concerns Span Segments

Degree of Urgency Varies, but All Leaders Feeling Pressure to Respond

Existential Urgency Dependent on Segment...

Percentage of Presidents that Believe in Sustainability of Business Models Over Next Ten Years for Each Sector

n=618



...But Worries Span Institutional Type



"We're not going to go out of business. But will our current financial model allow us to maintain excellence, serve the community, and meet our ambitions? I don't think so."

President

Public Flagship Research University



- **Moody's Outlook: Higher education was downgraded from stable to negative in January 2018.**
- **Negative outlook was reaffirmed in December 2018:**
 - Revenue will be constrained as low tuition revenue growth remains the most difficult business condition.
 - Colleges and universities will remain focused on expense containment, providing longer-term challenges related to programmatic and capital investment.

Quote from Moody's Report:

"Low net tuition revenue growth is a function of a highly competitive environment. Amid a continued societal focus on value and return on investment, universities are competing for an overall flat number of high school graduates and declining high school graduates in certain regions. In some states, public universities must contend with state-imposed limits on undergraduate tuition rates. In addition, our Tuition Survey highlights declining numbers of transfer students, reflecting reduced community college enrollment in a period of strong employment, as well as some reduction in international enrollment, partially in response to changing federal immigration and visa policies."

Looking for Future Students

Demographic and immigration trends raise the risk of a shortage of U.S. college students within the next 10 to 15 years.

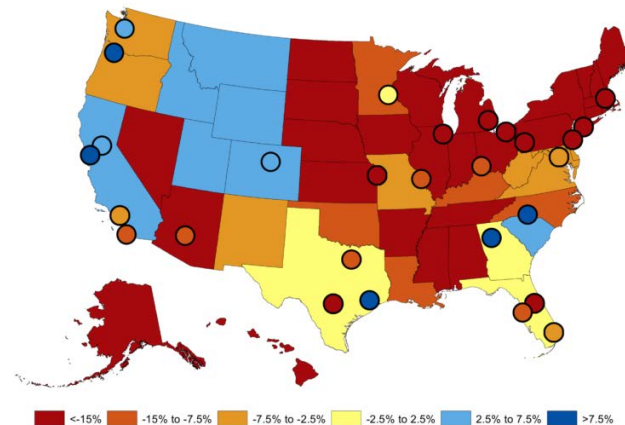
- 2016, 48% of Millennial women were mothers, down 9% from Gen Xers at similar age.
- The U.S. birth count fell to less than 3.8 million in 2018, a 2% drop from 2017, to the lowest number of births in 32 years.
- U.S. birth count peaked at 4.3 million babies born in 2007. Thus, in 11 years the annual domestic birth rate has declined by more than 12%.



A Student Population Shortfall: Nathan Grawe

- College-age population is expected to drop 5 percent in the Northeast and Midwest by the mid-2020s.
- Grawe projects a second drop of close to 10 percent from 2026 to 2031, fueled by the peaking of domestic births in 2007 and the shift towards a greater minority population. The Northeast and Midwest will be hit hard.
- The importation of foreign students has counterbalanced demographic trends in the last decade, but that may soon end.

Nathan D. Grawe, Carlton College Change in Students Attending 4-year Colleges: 2012-2029



Indiana Statewide Summary Fall Census FTE (Degree-Seeking Students)

Table 2: Statewide Summary Fall Census FTE (Degree-Seeking Students Only)

Enrollment Category	Degree-Seeking Fall Full-Time Equivalency (FTE)		5 yr (2013-18)
	Fall 2013	Fall 2018	
STATEWIDE PUBLIC			
Total Enrollment	231,413	213,105	-7.9%
Resident Total	179,054	153,814	-14.1%
Non-Resident Total	52,359	59,291	13.2%
Undergraduate	203,366	183,203	-9.9%
Resident	166,255	140,709	-15.4%
Non-Resident	37,110	42,494	14.5%
Graduate	28,048	29,901	6.6%
Resident	12,799	13,105	2.4%
Non-Resident	15,249	16,797	10.1%
4-YR PUBLIC INSTITUTIONS			
Total Enrollment	172,511	173,329	0.5%
Resident Total	122,662	116,607	-4.9%
Non-Resident Total	49,849	56,722	13.8%
Undergraduate	144,464	143,428	-0.7%
Resident	109,864	103,503	-5.8%
Non-Resident	34,600	39,925	15.4%
Graduate	28,048	29,901	6.6%
Resident	12,799	13,105	2.4%
Non-Resident	15,249	16,797	10.1%
2-YR PUBLIC INSTITUTIONS			
Total Enrollment (Undergraduate)	58,902	39,775	-32.5%
Resident Total	56,392	37,206	-34.0%
Non-Resident Total	2,510	2,569	2.3%

Undergraduate resident public enrollments dropped in the 5 year period from 2013 to 2018:

- Overall: -15.4%
- 4-Year: -5.8%
- 2-Year: -34%

2019 Data just released shows further declines:

- Overall: -0.8%
- 4-Year: -2.1%
- 2-Year: +1.5%

Source: CHEDSS, Indiana Commission for Higher Education Data Submission System

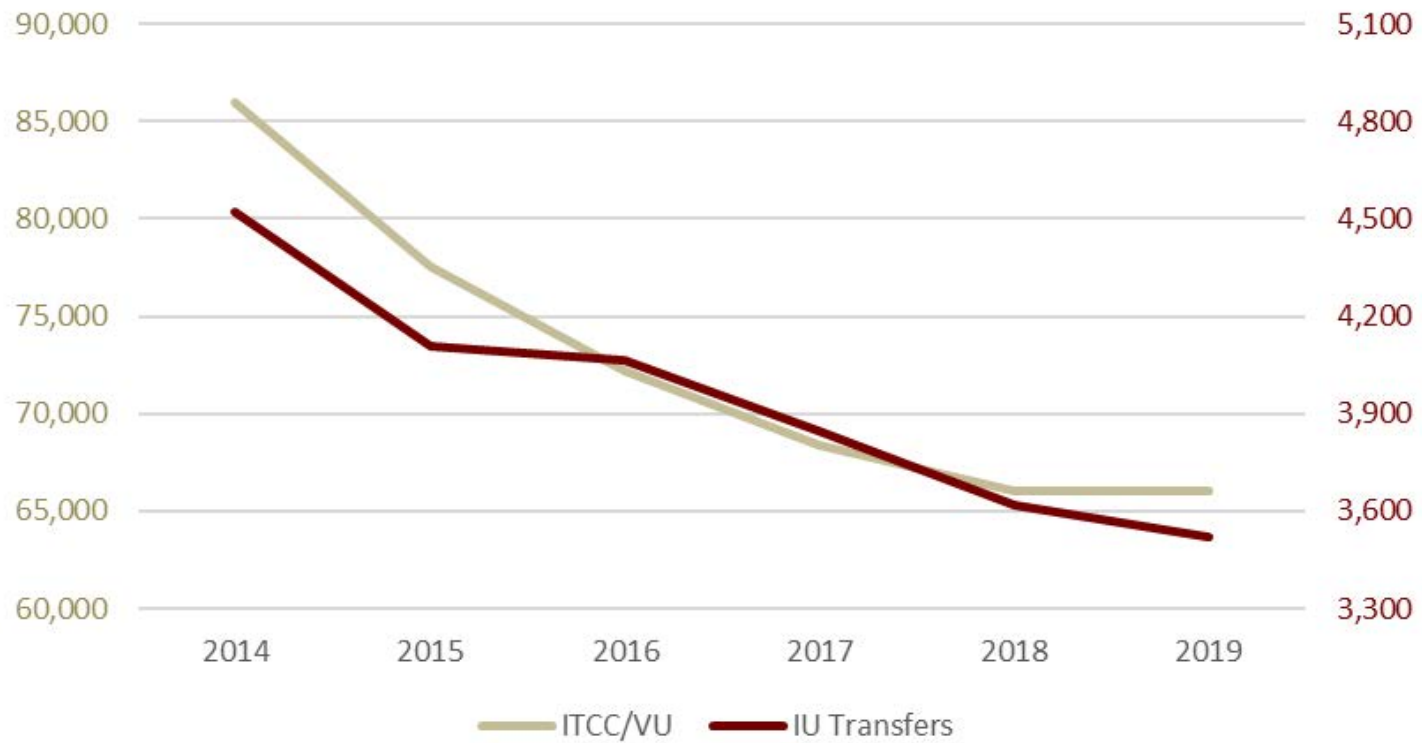
Note: Fall 2018 data are impacted by structural changes to IPFW (shifting of health programs to IU) and Ivy Tech (realignment of campus structure). In future reporting, IPFW will be referred to as Purdue University- Fort Wayne.

IU Fall Enrollment – Degree Seeking Students

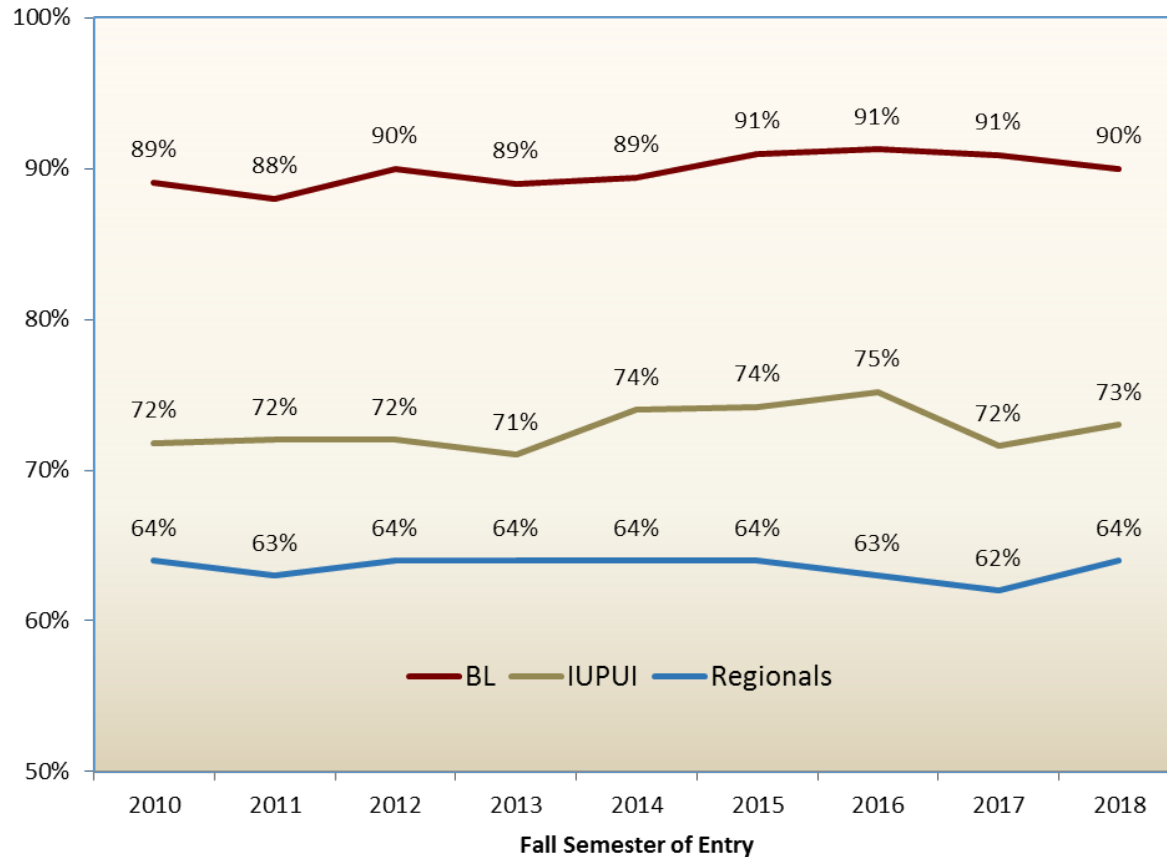
Number of Students						
	2015	2016	2017	2018	2019	1 Yr % Chg
Bloomington	42,588	43,213	43,157	42,937	42,760	-0.4%
Indianapolis	29,044	28,759	28,784	28,710	28,598	-0.4%
East	3,305	3,236	3,125	3,196	3,271	2.3%
Kokomo	2,894	2,873	2,873	2,898	2,910	0.4%
Northwest	4,471	4,064	3,892	3,747	3,633	-3.0%
South Bend	5,672	5,471	5,261	5,082	4,910	-3.4%
Southeast	5,577	5,297	5,072	4,945	4,672	-5.5%
IU Total	93,551	92,913	92,164	91,515	90,754	-0.8%

Credit Hours						
	2015	2016	2017	2018	2019	1 Yr % Chg
Bloomington	571,080	578,427	580,263	577,210	576,811	-0.1%
Indianapolis	355,062	364,634	367,124	367,380	366,955	-0.1%
East	35,943	35,234	34,777	36,158	36,852	1.9%
Kokomo	35,095	35,671	36,567	37,463	37,760	0.8%
Northwest	50,898	47,711	45,892	44,208	43,361	-1.9%
South Bend	65,414	65,595	63,847	61,795	59,594	-3.6%
Southeast	61,033	60,139	58,492	57,762	54,712	-5.3%
IU Total	1,174,525	1,187,411	1,186,962	1,181,974	1,176,044	-0.5%

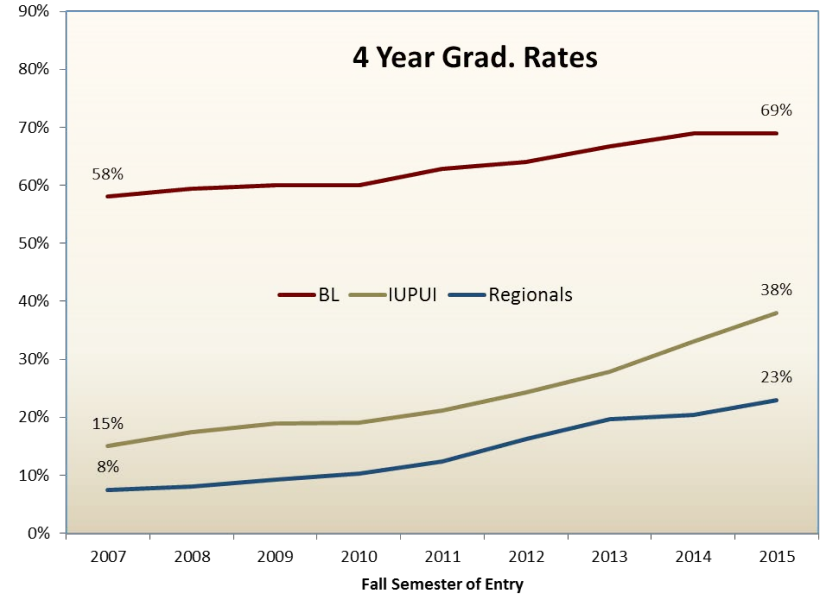
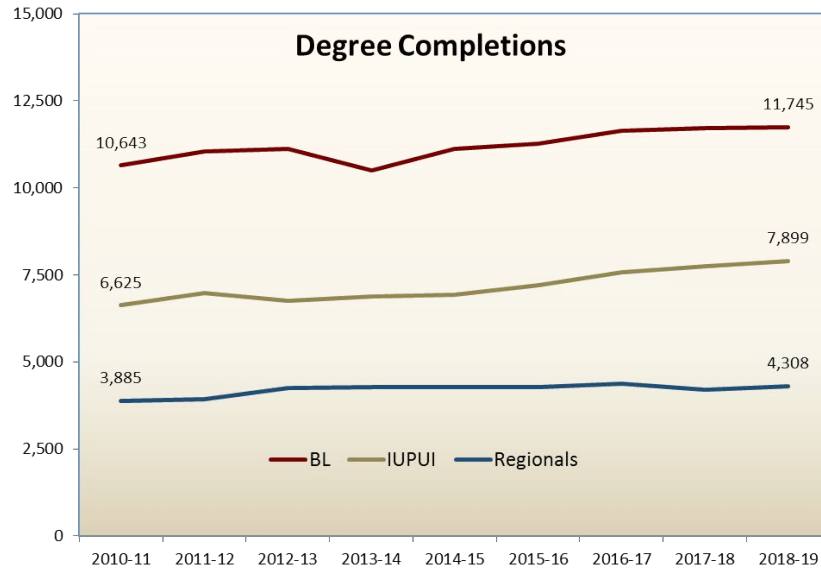
IU TRANSFERS & IVY TECH/VU ENROLLMENTS



RETENTION TO THE 2ND YEAR

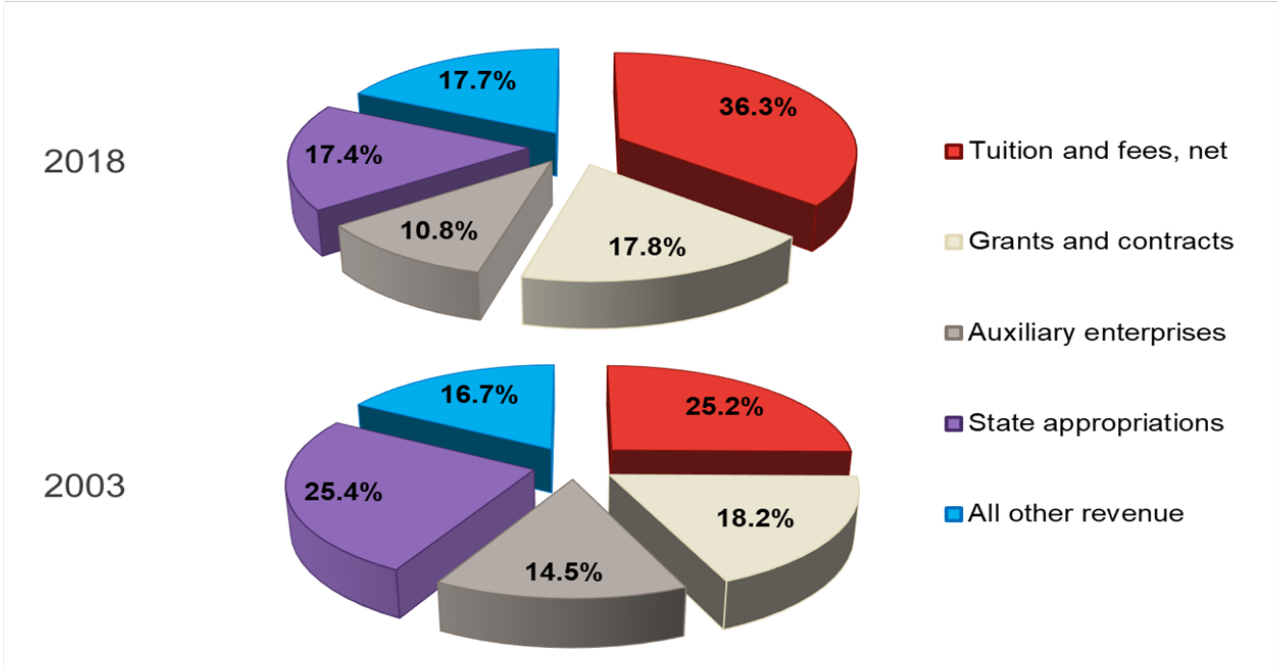


DEGREE COMPLETIONS & GRADUATION RATES



Indiana University

Revenue Sources as a Percentage of Total Revenue

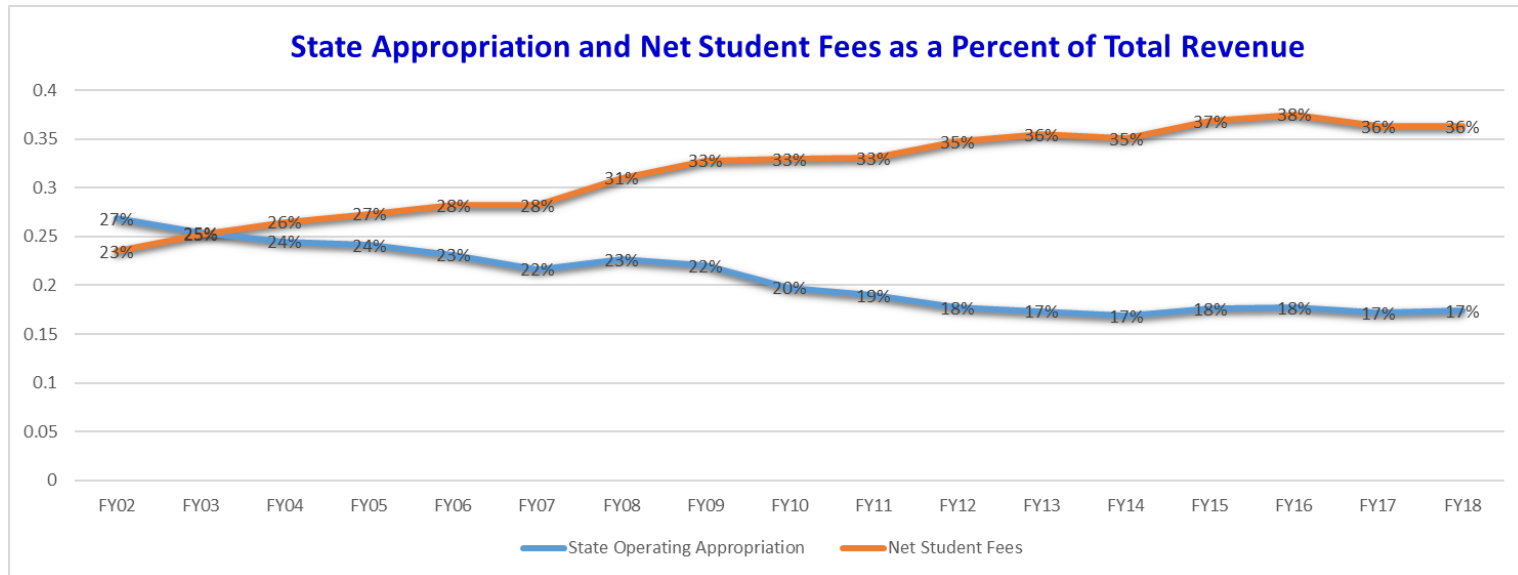


SHEEO – State Higher Education Executive Officers Association

State Funding 2018 – 10 Years after the Great Depression

- After 5 years of funding increases, state support for H.Ed. increased only at inflation in 2018, as recovery from the Great Recession slowed down.
- Adjusting for inflation, state support per student remains \$1,000 lower than before the 2008 Great Recession and nearly \$2,000 lower than before the 2001 dot-com crash.
- In 2018, state-funded student financial aid increased more than any year since Great Recession. Encouragingly, states have protected this source of support during economic downturns.

IU Example of Funding Shift from State to Students



	FY 2002	FY 2018	16 Yr Gr.	CAGR
Total University Revenues	1,868,278	3,319,344	78%	3.7%
Net Student Fees Revenues	438,798	1,204,801	175%	6.5%
State Appropriation (\$000)	502,004	576,597	15%	0.9%
State Operating Appropriation % of Total	27%	17%		
Net Student Fees % of Total	23%	36%		

Over 16 years, State Appropriations increased approximately \$75M, and Student Fee Revenue increased over \$750M

State Appropriations Update

- Performance Funding Formula New State Dollars – 1% FY20 and 1.5% FY21 = 2.5% for biennium
- Performance Funding Formula Reallocation – 6% in FY20, 4.5% in FY21
- IUSM and IUFW receive new state dollars at level of performance funding formula (1% FY20 + 1.5% in FY21)
- Incremental Operating Funds over two years for IU of \$26M (\$8.8M + \$16.7M)

	FY 2019 Approp	FY 2020			FY 2021			2019 - 2021 Biennium	
		Total FY 2020 Appropriation	FY 2020 vs FY 2019	FY 2020 vs FY 2019	Total FY 2021 Appropriation	FY 2021 vs FY 2020	FY 2021 vs FY 2020	FY 2021 vs FY 2019	FY 2021 vs FY 2019
IUB	\$ 200,892,690.00	\$ 199,005,419.00	(1,887,271.00)	-0.9%	\$ 201,961,310.00	\$ 2,955,891.00	1.5%	\$ 1,068,620.00	0.5%
IUE	\$ 11,697,093.00	\$ 13,841,702.00	2,144,609.00	18.3%	\$ 14,047,315.00	\$ 205,613.00	1.5%	\$ 2,350,222.00	20.1%
IUK	\$ 14,013,516.00	\$ 15,824,440.00	1,810,924.00	12.9%	\$ 16,059,485.00	\$ 235,045.00	1.5%	\$ 2,045,969.00	14.6%
IUNW	\$ 17,635,464.00	\$ 18,594,348.00	958,884.00	5.4%	\$ 18,870,523.00	\$ 276,175.00	1.5%	\$ 1,235,059.00	7.0%
IUPUI: GA	\$ 105,869,040.00	\$ 109,477,462.00	3,608,422.00	3.4%	\$ 111,103,662.00	\$ 1,626,200.00	1.5%	\$ 5,234,622.00	4.9%
IUSB	\$ 23,982,670.00	\$ 24,509,706.00	527,036.00	2.2%	\$ 24,873,721.00	\$ 364,015.00	1.5%	\$ 891,051.00	3.7%
IUSE	\$ 20,149,938.00	\$ 20,584,996.00	435,058.00	2.2%	\$ 20,890,749.00	\$ 305,753.00	1.5%	\$ 740,811.00	3.7%
IU SOMD	\$ 119,257,437.00	\$ 120,450,011.00	1,192,574.00	1.0%	\$ 122,238,873.00	\$ 1,788,862.00	1.5%	\$ 2,981,436.00	2.5%
IUFW	\$ 4,850,000.00	\$ 4,898,500.00	48,500.00	1.0%	\$ 4,971,250.00	\$ 72,750.00	1.5%	\$ 121,250.00	2.5%
IU TOTAL	\$ 518,347,848.00	\$ 527,186,584.00	8,838,736.00	1.7%	\$ 535,016,888.00	\$ 7,830,304.00	1.5%	\$ 16,669,040.00	3.2%

- Received \$98.7M in appropriations for Capital:
 - First priority capital project, Bicentennial R&R, funded at \$62M bonding authority (50% of requested amt.)
 - Regional deferred maintenance line item funded at \$8.1M in FY21 (Added by Senate, maintained in final)
 - IU's state R&R was funded at \$28.7M for the biennium.
- No increases for IU line items except Dual Credit and the Study of Developmental Disabilities (IIDC).

Indiana Commission of Higher Education Tuition Guidance and Indiana University Annual Tuition Increases

	2013-14 T&F	2014-15 T&F	2015-16 T&F	2016-17 T&F	2017-18 T&F	2018-19 T&F	5 Year Avg. Growth
Commission Guidance	1.65%	1.65%	1.65%	1.65%	1.40%	1.40%	1.55%
Bloomington	1.74%	1.22%	0.00%	0.00%	1.40%	1.40%	0.80%
IUPUI	1.75%	1.75%	1.65%	1.65%	1.40%	1.40%	1.60%
IU Regional Campuses	2.03%	2.04%	1.92%	1.89%	1.90%	1.90%	2.00%

Indiana University Budget Pressures: Compensation = 65% of Total Expenses

- 1% Increase in UG Tuition = \$8.5M
- 1% Increase in Total Net Tuition Revenues = \$12.4M
- 1% Increase in Total Compensation = \$15.8M

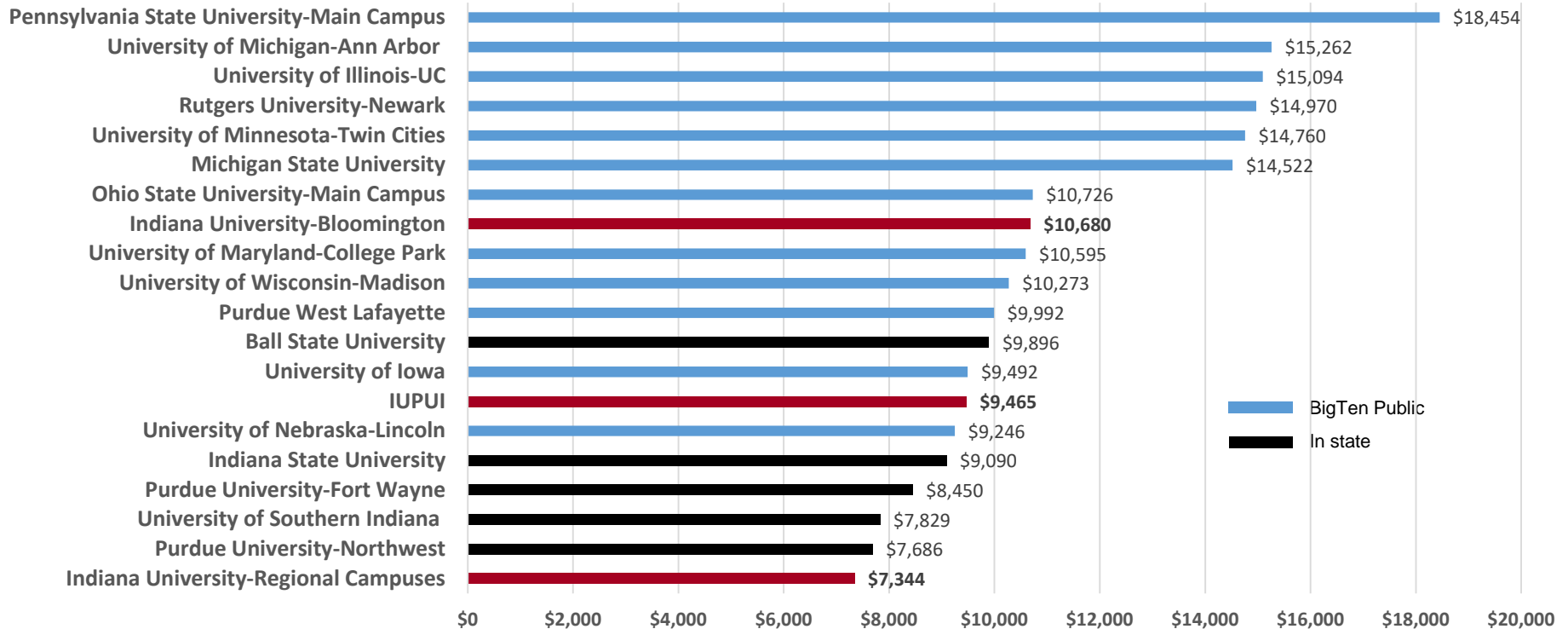
5 Yr. Avg.
HEPI = 2.6%
CPI = 1.4%

IU offers Pricing Options

to meet the needs of Indiana Families

Presented to State Budget Committee

Academic Year 2018-2019 (Tuition and fees)



For FY2020 and FY 2021 Board Approved a 2.5% Tuition & Fee Increase

Presented to State Budget Committee: Even with 2.5% Increase over last 3 biennium's IUB is under guidance given two 0% increases in FY2016 & FY2017

INDIANA UNIVERSITY - BLOOMINGTON							
Actual vs. Guidance	2015	2016	2017	2018	2019	2020	2021
Tuition & Fees - Actual	\$10,388	\$10,388	\$10,388	\$10,533	\$10,680	\$10,947	\$11,221
Increase %		0.00%	0.00%	1.40%	1.40%	2.50%	2.50%
IUB Tuition & Fees at Guidance	\$10,388	\$10,559	\$10,734	\$10,884	\$11,036	\$11,218	\$11,403
Increase %		1.65%	1.65%	1.40%	1.40%	1.65%	1.65%
IUB Actual Over/(Under) Guidance		(\$171)	(\$346)	(\$351)	(\$356)	(\$271)	(\$183)

Administrative Efficiency

Shared Services Consolidation for Efficiency at all IU Campuses:

- Accounting/Treasury
- Crimson Card Services
- Facilities & Capital Planning
- General Counsel
- Human Resources
- Information Technology
- Institutional Research
- Parking
- Procurement
- Student Services

...enables cost cutting and personnel reductions on all campuses

Broad centralization is delivering *ongoing* cost savings via efficiency. For example, Student services consolidation yielded **\$3.8M in direct savings and \$4.8M in indirect savings** to campuses and schools. The IU budget model requires each academic unit to reallocate to cover its own costs.

Academic Structure and Programs Efficiency

New Academic Directions to Re-envision IU Programs

...and achieving operational efficiencies

Closed, Merged, or Created 12 Schools:

- Eskenazi School of Art, Architecture + Design
- Fairbanks School of Public Health
- Hamilton Lugar School of Global and International Studies
- Lilly Family School of Philanthropy
- Media School
- School of Continuing Studies
- School of Health and Human Sciences
- School of Health and Rehabilitation Sciences
- School of Journalism
- School of Library and Information Science
- School of Physical Education and Tourism Management
- School of Public Health (IUB)

Many new degree programs span faculty expertise at multiple campuses

IU eText Program dramatically reduces the costs of textbooks

>\$5M in real cost avoidance to IU students in 2018

Indiana University – Measure of Efficiency

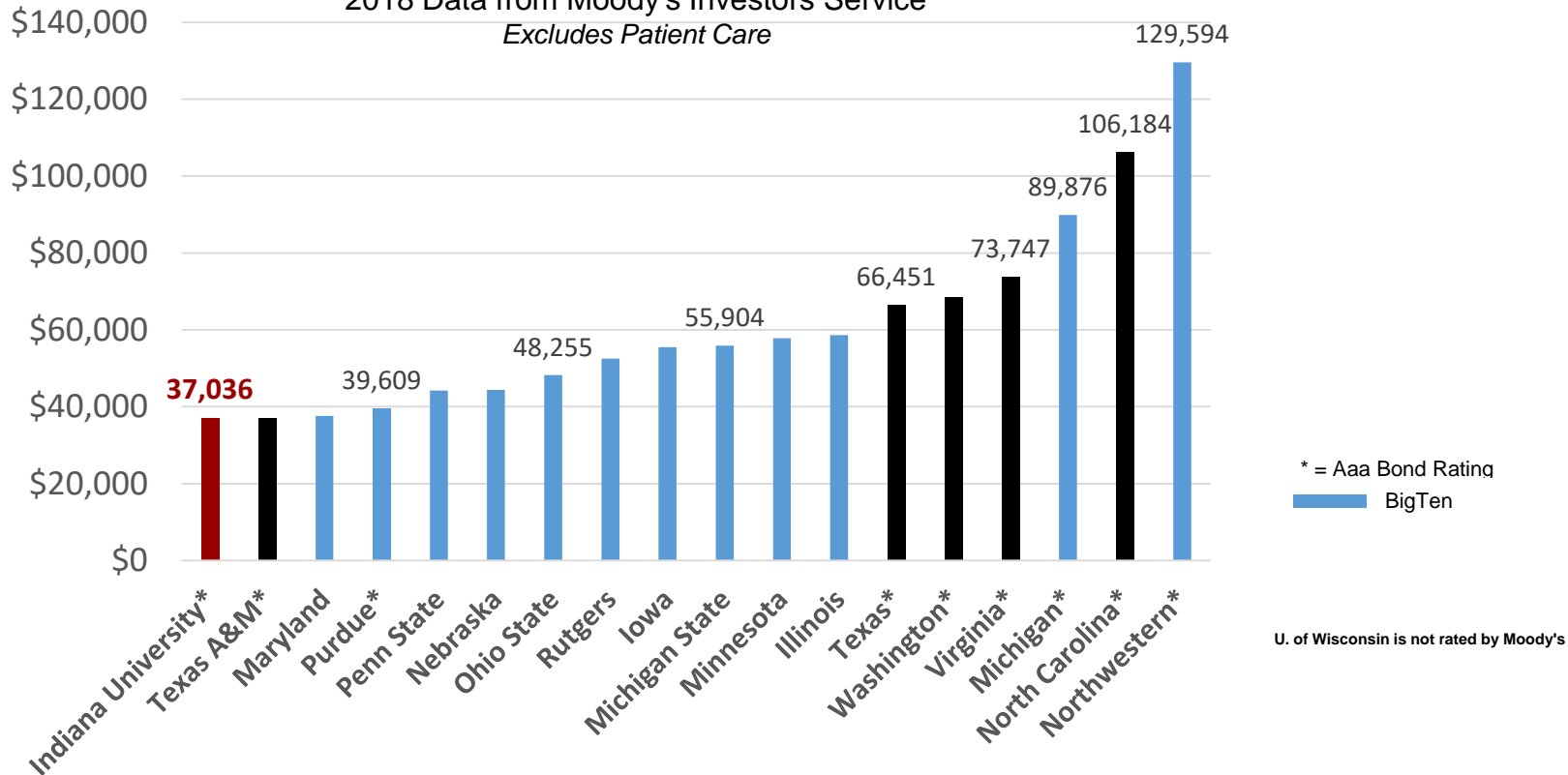
Presented to State Budget Committee: IU's Operating Expense per Student is the lowest in the Big 10 and of the Aaa rated Universities.

Operating Expenses per Student

BigTen and Aaa Public Institutions

2018 Data from Moody's Investors Service

Excludes Patient Care



IU's – Financial Condition

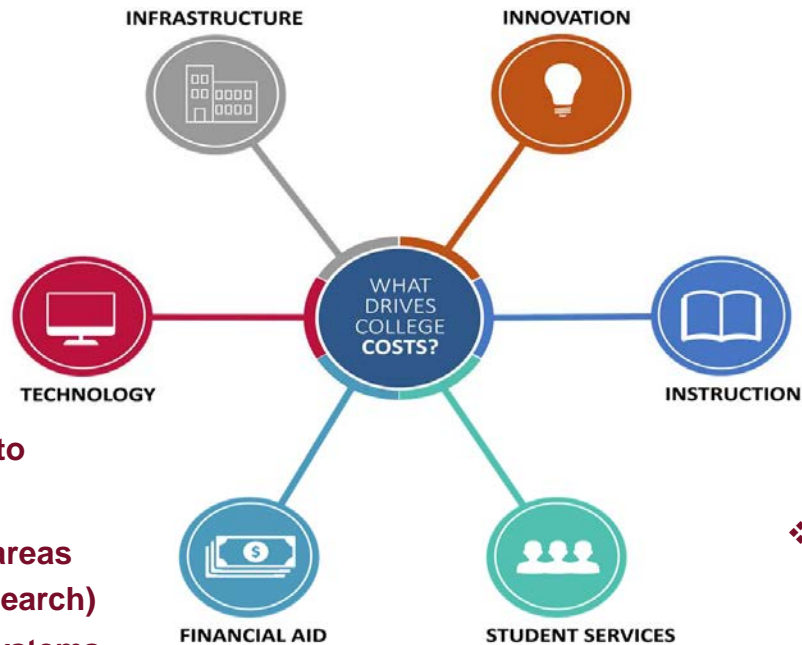
“Aaa/AAA” Bond Rating

Summary from Rating Agency Reports

- **IU's Strengths**
 - Strong Market Position, Global Demand, Excellent Research Standing
 - Modest leverage – State supported debt service
 - Healthy Balance Sheet
 - Favorable management and governance
 - Strategic focus on academic mission
 - Excellent Fundraising record
- **IU's Challenges**
 - Constrained revenues related to tuition and state appropriation increases
 - High competition for sponsored research funding
 - Ongoing capital need of multi-campus university

What Drives College Costs?

- ❖ Labor shortages and growing costs of raw materials are driving inflation in construction (6% annually).



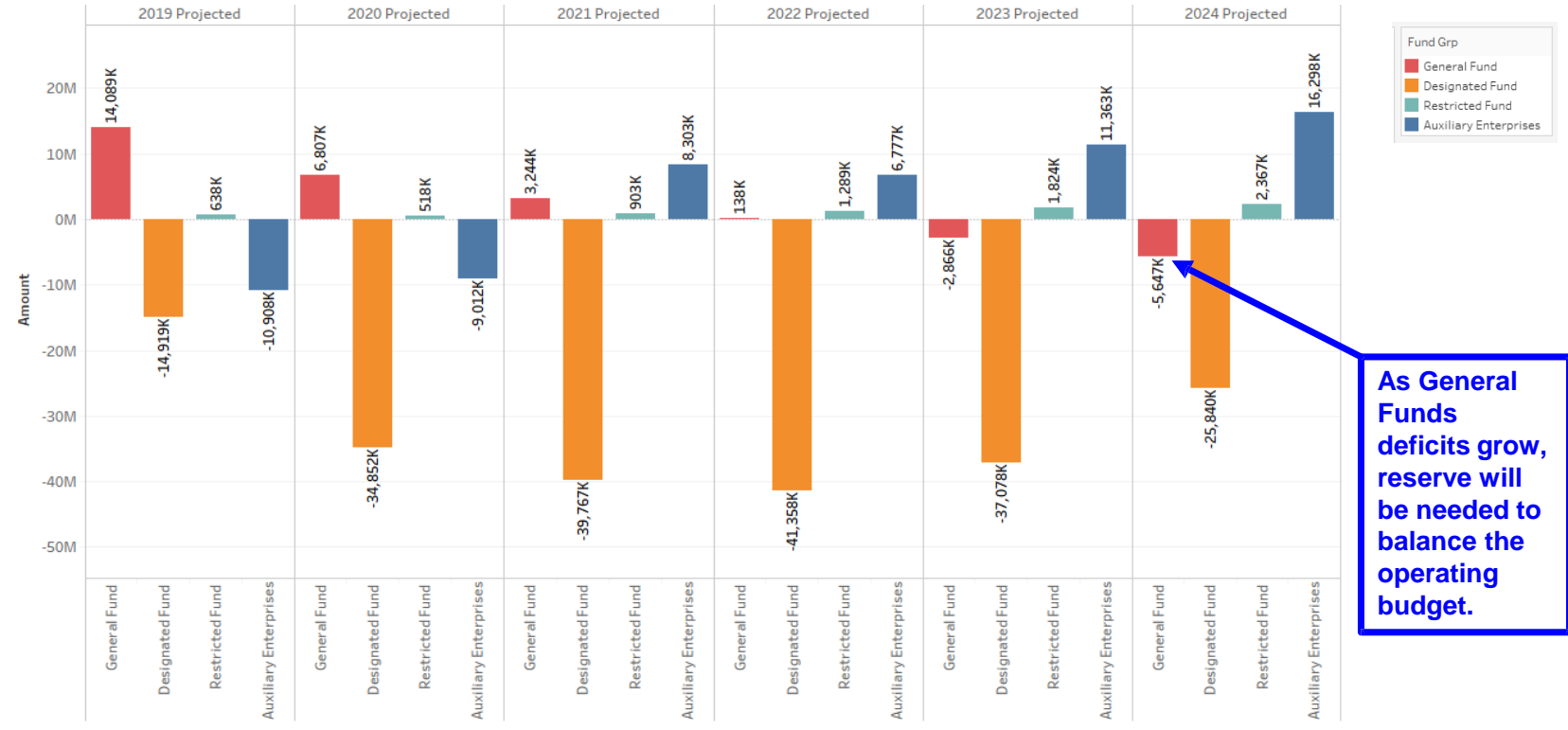
- ❖ Growth in information technology costs continue to outpace inflation:
 - Wages for high demand areas (Cybersecurity, CRM, Research)
 - Teaching and Learning Systems
 - Infrastructure (Storage, computing, networks)

- ❖ Average higher education salary increases are projected to be 2.7%.
- ❖ IU compensation guideline is up to 2%, depending on resources.
- ❖ Fringe benefits projected to grow by 2.5% annually, primarily due to increasing healthcare costs.
- ❖ Financial Aid is projected to grow \$51M over the next five years as enrollment challenges continue and competition increases.

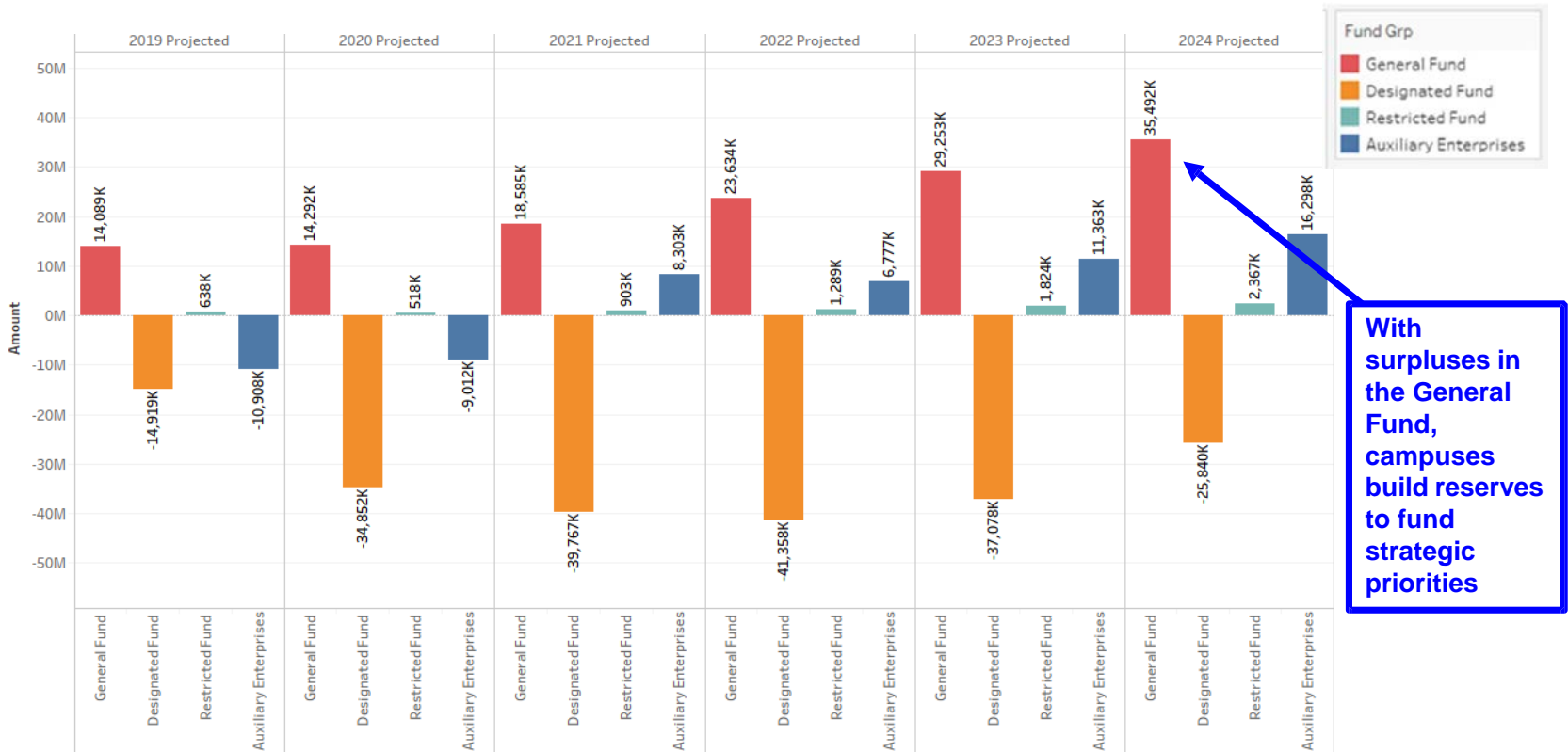
5-Year Planning Model Scenarios

Planning Parameter	Scenario 1 (Original 5-Year Model)	Scenario 2 (with ICHE Guidance)	Scenario 3 (Recommended)
Resident Undergraduate Increase	2.0%	1.65%	2.5%
Nonresident Undergraduate Increase	2.5%	2.15%	3%
Resident & Nonresident Graduate/Professional Increase	3%	3%	3%
State Operating Appropriations	2019-21 Actual	2019-21 Actual	2019-21 Actual
Compensation	0-2% Range Depending on Resources	0-2% Range Depending on Resources	0-2% Range Depending on Resources
Fringe Benefits	Actual FY20 Projected FY21 – FY24	Actual FY20 Projected FY21 – FY24	Actual FY20 Projected FY21 – FY24

All Campus Surplus (Deficit) by Fund (UA not included) with 1.65%



All Campus Surplus (Deficit) by Fund (UA not included) with 2.5%



Projected Campus Cash Comparison

- Cash balances include unrestricted campus operating funds only.
- Sufficient reserves in auxiliary funds to cover unplanned expenses (i.e. Mold)
- Campus unrestricted operating cash goal = 90 days

Dollars in 000's

Ending Cash Balance All IU	2020	2021	2022	2023	2024
All IU Scenario 1 - 2%	762,819	727,727	693,875	665,049	648,477
All IU Scenario 2 - 1.65%	759,567	718,343	674,863	632,910	599,563
All IU Scenario 3 - 2.5%	767,221	741,170	721,185	711,350	719,143

Days Cash on Hand	2020	2021	2022	2023	2024
All IU Scenario 1 - 2%	93	87	80	75	72
All IU Scenario 2 - 1.65%	93	86	78	72	67
All IU Scenario 3 - 2.5%	94	89	83	81	80



200 YEARS

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Appendix A Responsibility Centered Management (“RCM”)

Centralized/Incremental Budget Model

Most Common Model:

- Authority for financial planning, execution, and control vested in executive management
- Income controlled at university/campus level
- Resources allocated by Executive Mgt.

What is RCM? (Responsibility Centered Management)

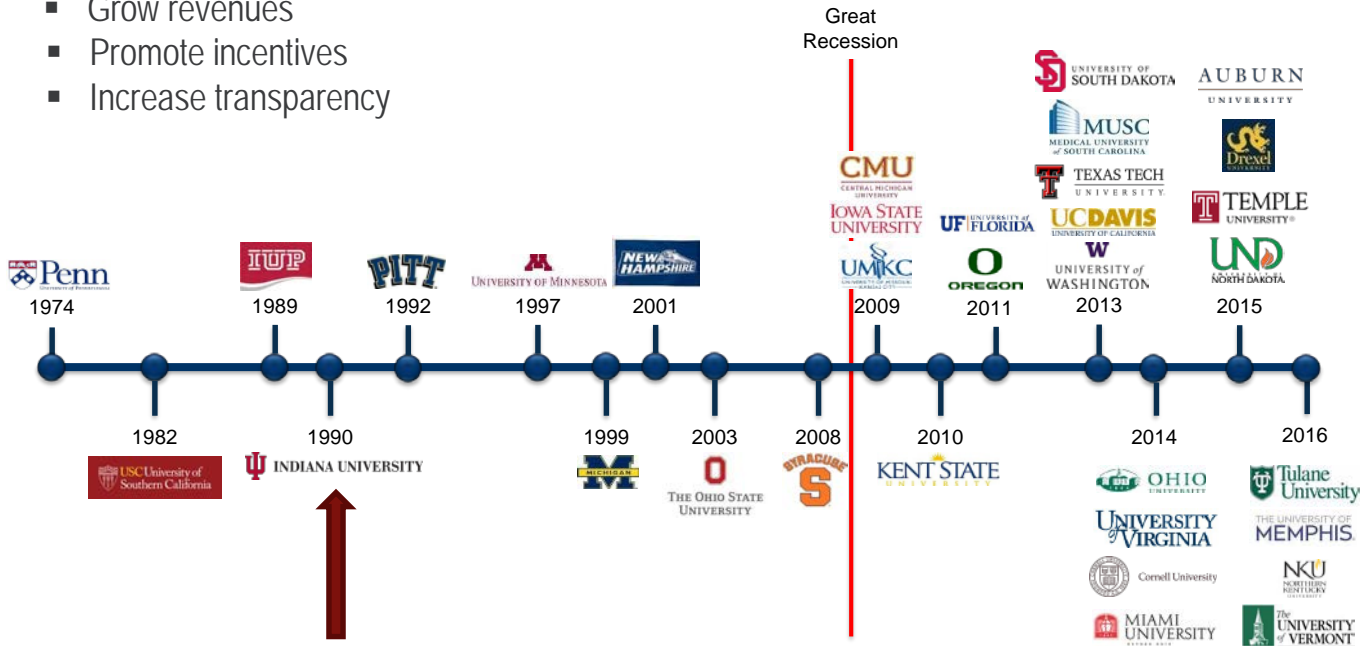
RCM is a financial management philosophy

- Focuses on decentralization of financial decisions
- Designed to support academic priorities of
Responsibility Center by allowing RC to retain and
allocate funds to priorities

Selected Higher Education Budget Redesigns – Move to RCM

Common budget redesign rationales:

- Change nature of decision making
- Move to a more methodical approach
- Grow revenues
- Promote incentives
- Increase transparency



RCM Financial Model

- **RC Receives Income and Pays Expenses**

Income:

- RC receives income (tuition) earned from its activities
- Also receives “allocation” of state appropriation

Expenses:

- All direct expenses related to its activities
- Pays overhead or a share of University and Campus support costs (i.e. assessment)

Positives of RCM

What does RCM accomplish?

- Eliminates the spend or lose mentality and reduces unnecessary expenditures
- Allows schools to fund long-range plans or major projects
- Provides incentives for schools to be responsive to market conditions as they control the resources



200 YEARS

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Appendix B Performance Funding

Performance Funding Metrics

Basic Degree Completion Metrics:

- Overall Degree Completion: increases in total number of degrees produced
- At-Risk Student Degree Completion: increases in degrees awarded to Pell grant eligible students
- On-Time Graduation Rates: increases in number of students graduating in 4 year

Performance Funding Metrics – Cont.

Other Metrics:

- Student persistence: increases in number of students completing 30, 60 and 90 credit hours (only two-year and non-research four-year campuses are eligible)
- High Impact Degree Completion: increases in degrees awarded to STEM related degrees (only research campuses are eligible (IUB, IUPUI, PUWL, and BSU))

FY 2019-21 Performance Funding Results

	BL	IUPUI	EA	KO	NW	SB	SE	IU Totals
Overall Degree Completion								
Bachelor's Degree	30	253	148	140	79	18	8	676
Master's Degree	-45	-92	6	-1	-42	-29	-49	6
Doctoral Degree	4	-5						4
High Impact								
Bachelor's Degree	160	125	21	13	16	23	9	367
Master's Degree	-4	-36	0	0	0	-1	0	
Doctoral Degree	-5	5						5
At-Risk Composite Value	98	186	73	74	43	42	33	549
On-Time	271	168	30	27	32	46	49	623
Student Persistence	30		39	75	83	132	52	381
	60		34	51	67	105	73	330
	90		23	12	26	49	22	132