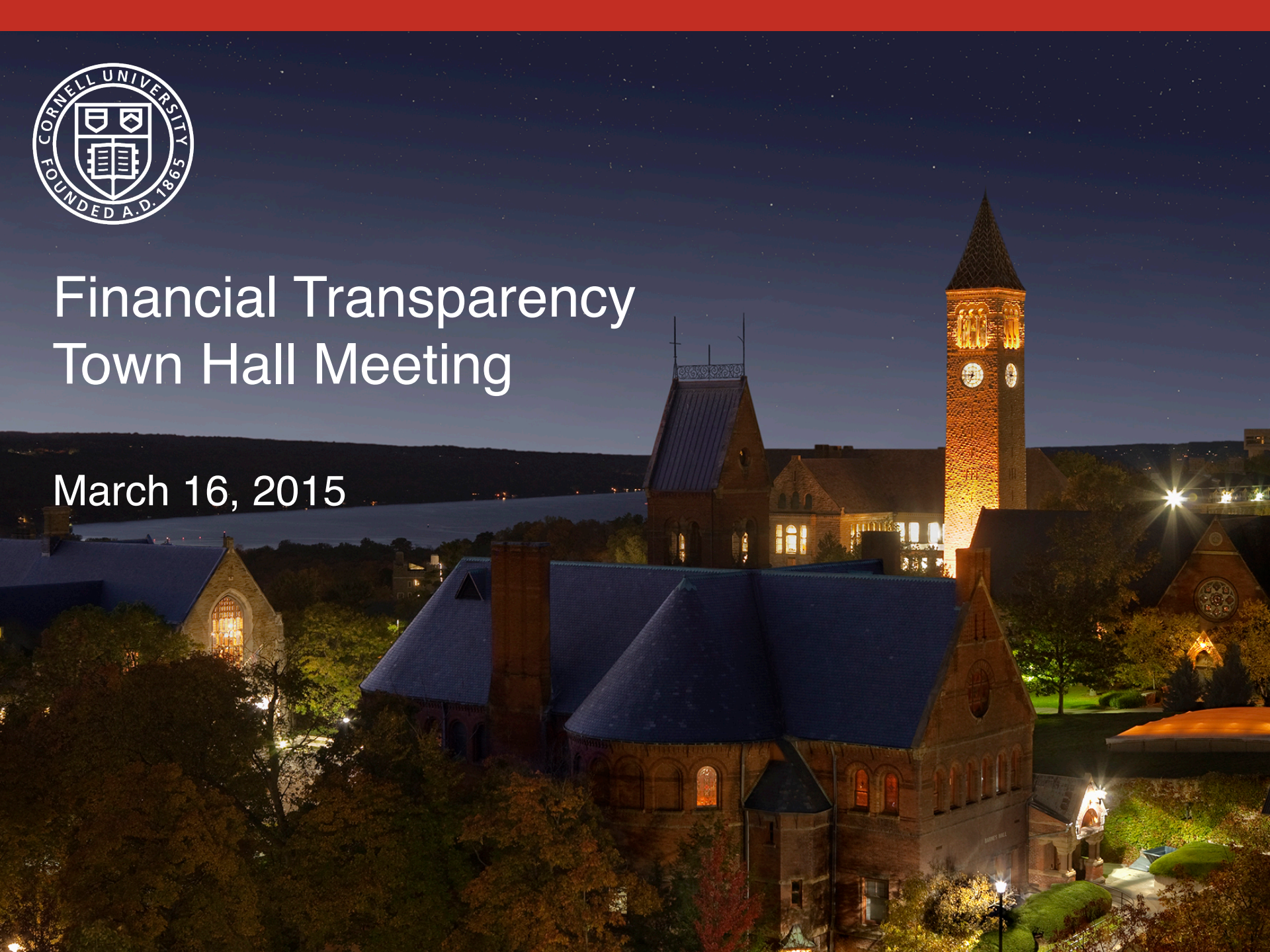


Financial Transparency Town Hall Meeting

March 16, 2015



Submit Questions

cornell.edu/video/townhall

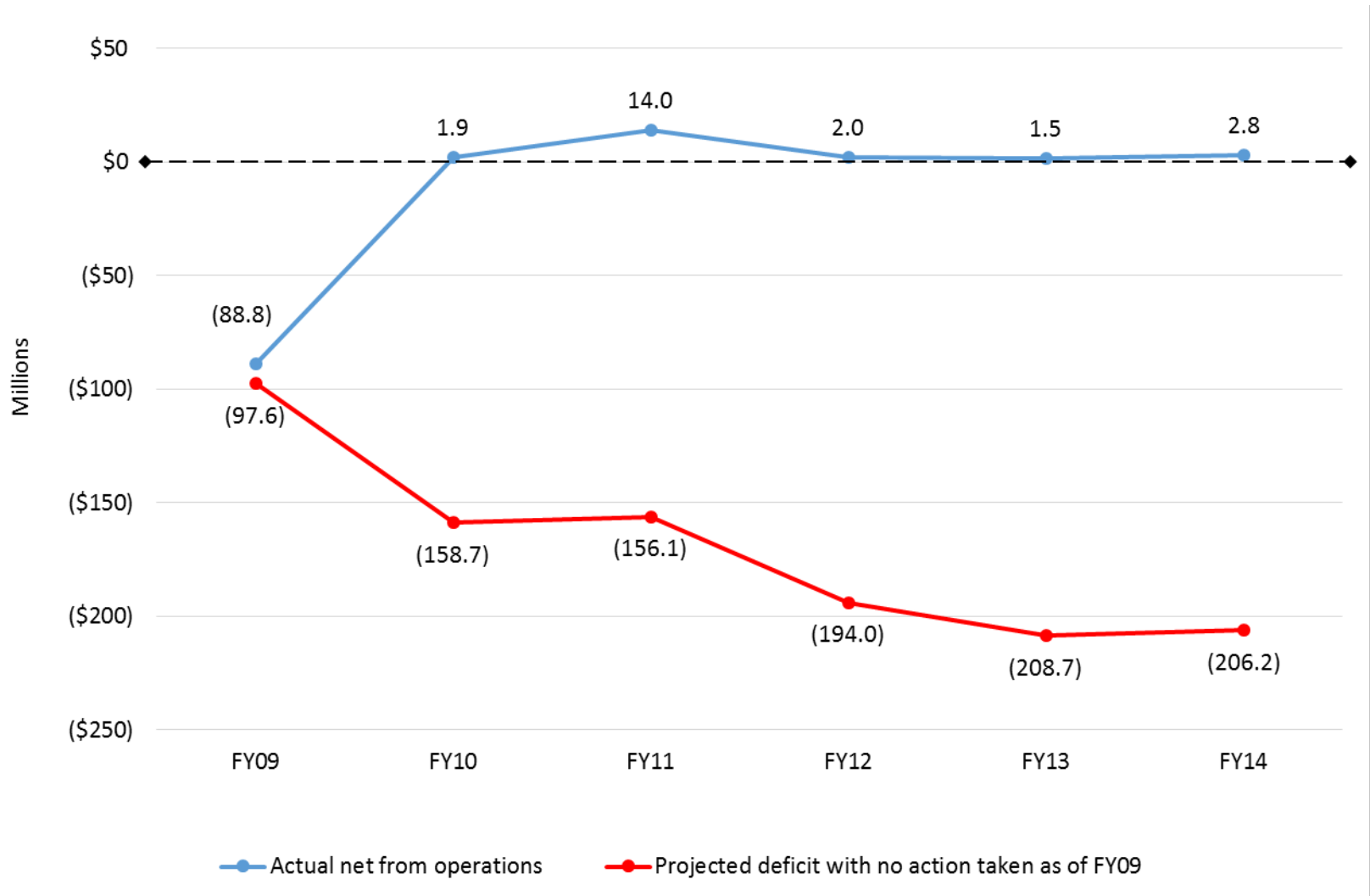
Executive Summary

- 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



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

Total Operating Revenue \$3.8 billion

Long Term Investment Pool \$5.9 billion

Book Value of Physical Plant
(net of depreciation) \$3.7 billion

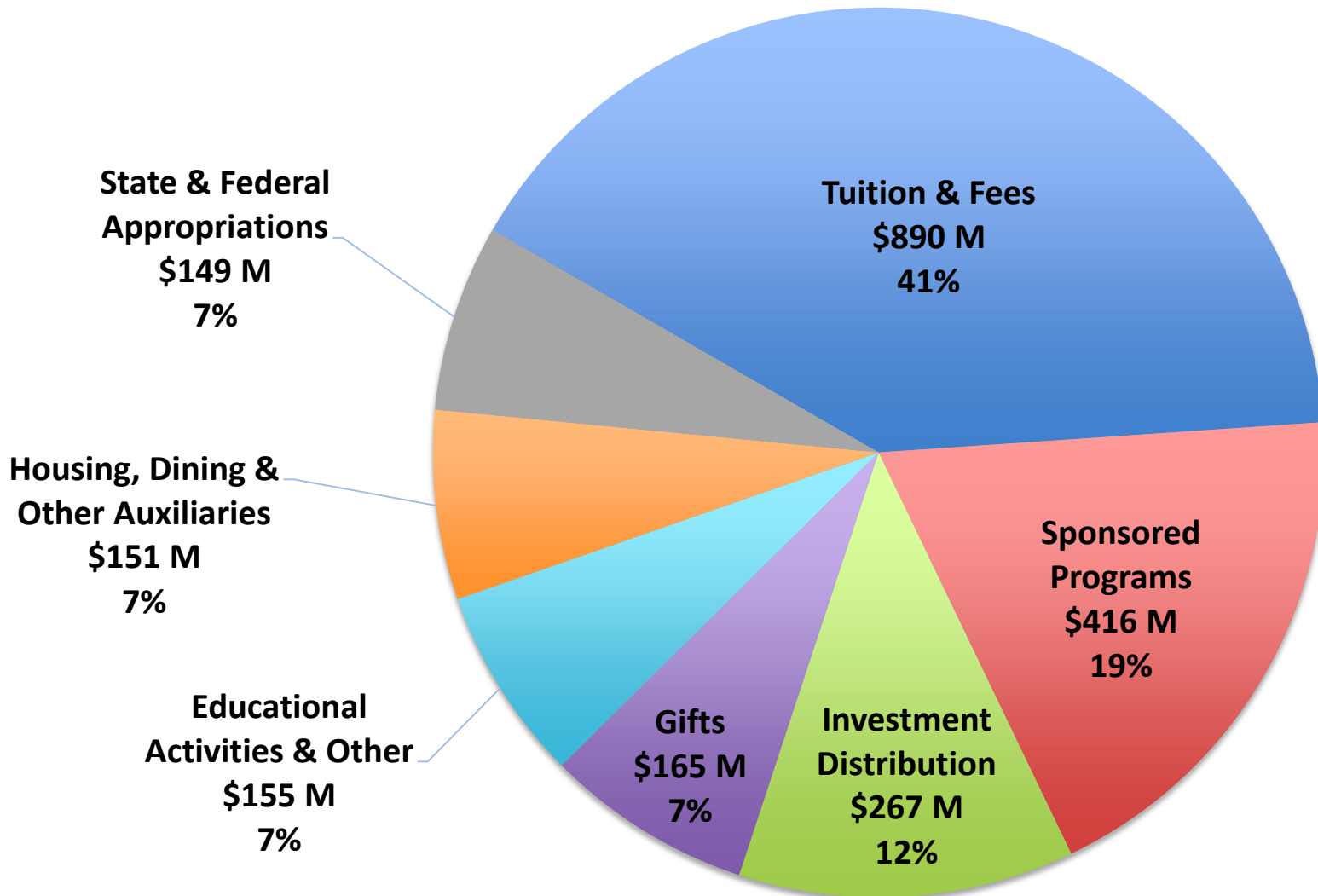
Employment – headcount 15,700

Research Expenditures \$777 million

Cornell has diverse revenue sources

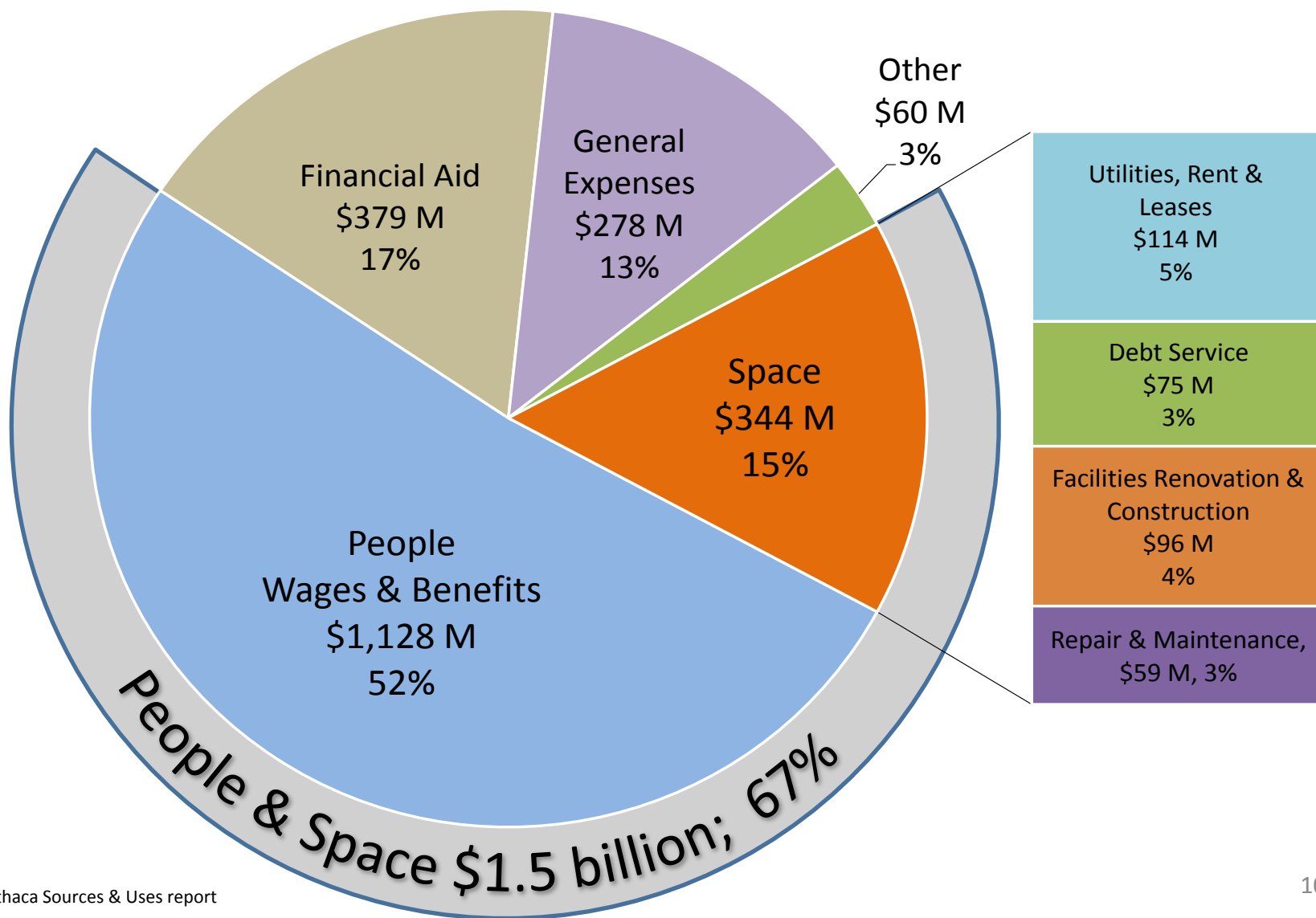
<i>(dollars in millions)</i>	ITHACA	WCMC	TOTAL CU	
	\$'s	\$'s	\$'s	%
FY14 Operating Revenue				
Tuition & Fees (Gross)	890	39	929	25%
Physicians' Organization	0	774	774	21%
Sponsored Programs	416	238	654	17%
Educational Activities & Other	155	388	543	14%
Investment Distribution	266	48	314	8%
Gifts	165	66	231	6%
Housing, Dining & Other Auxiliaries	151	50	201	5%
State and Federal Appropriations	149	0	149	4%
Total FY14 Operating Revenue	2,192	1,603	3,795	100%

Ithaca Campus FY14 Operating Revenues \$2.2 Billion



Approximately two-thirds of expenses: People and Space

Ithaca Campus FY14 Operating Expenses
\$2.2 Billion



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

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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

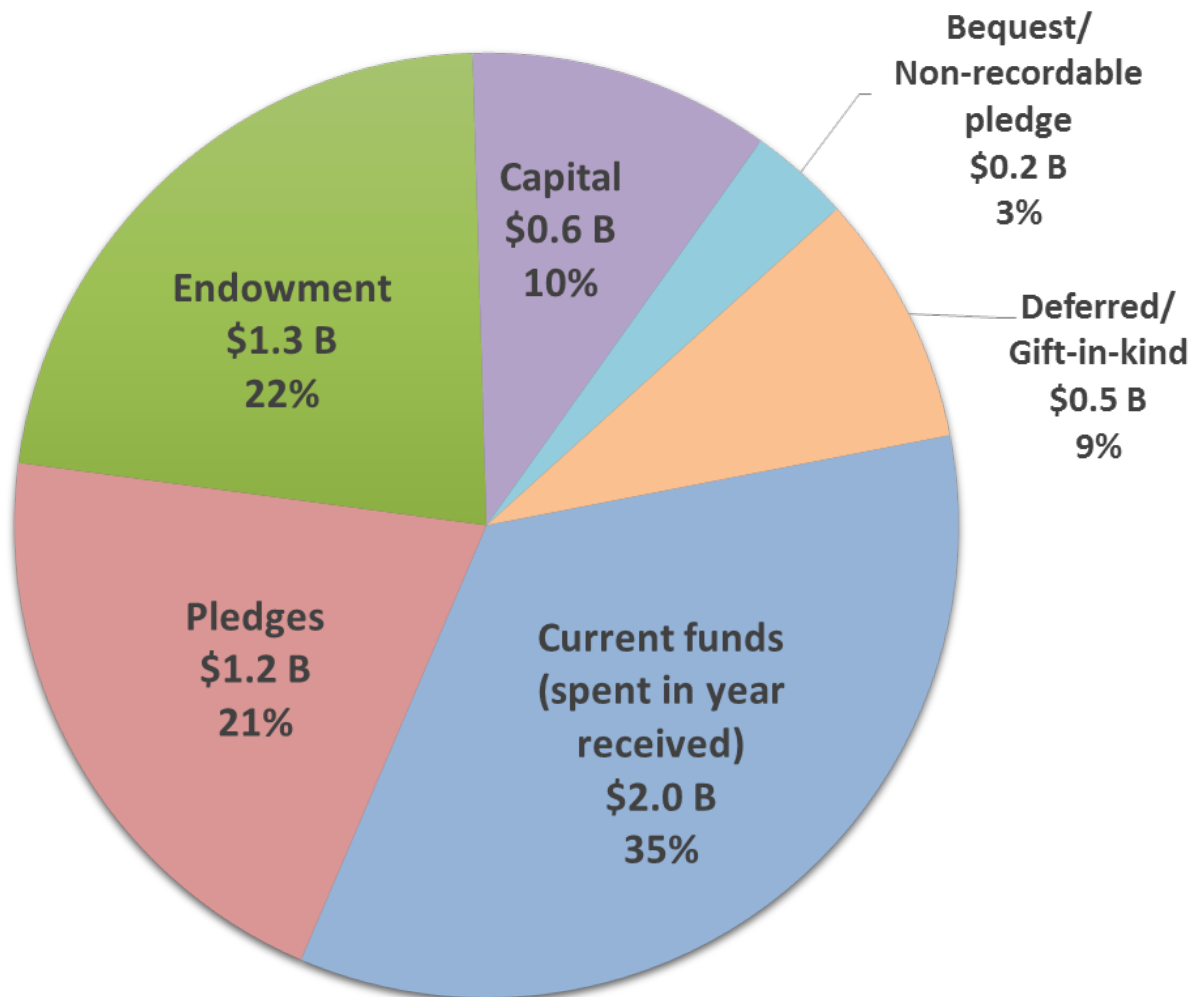
Robust Fundraising – Restricted Use

University wide capital campaign (2006-2015)

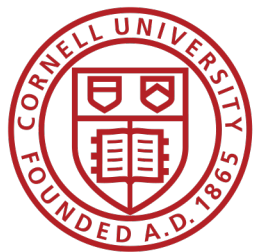
\$5.8 billion achieved to-date¹

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

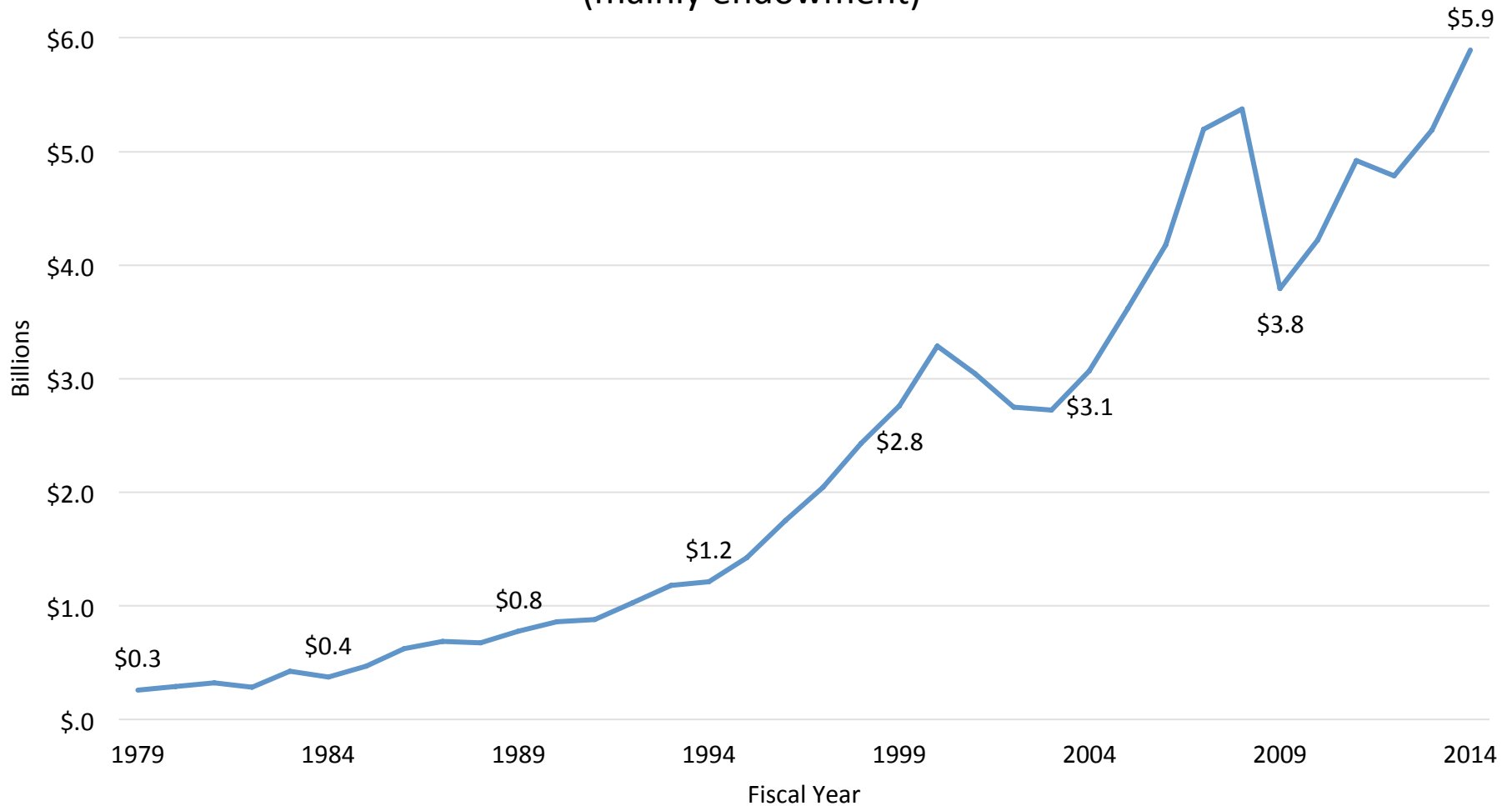


University Priorities: Strategic Plan 2010-2015

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

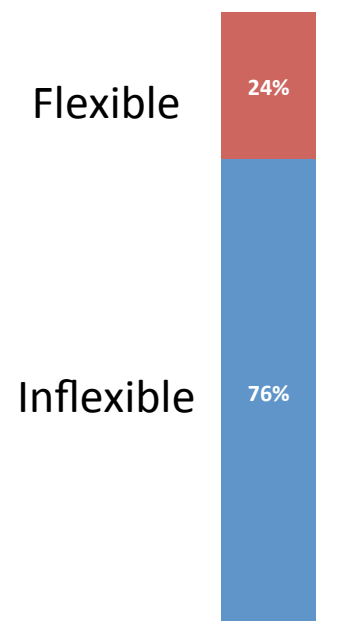
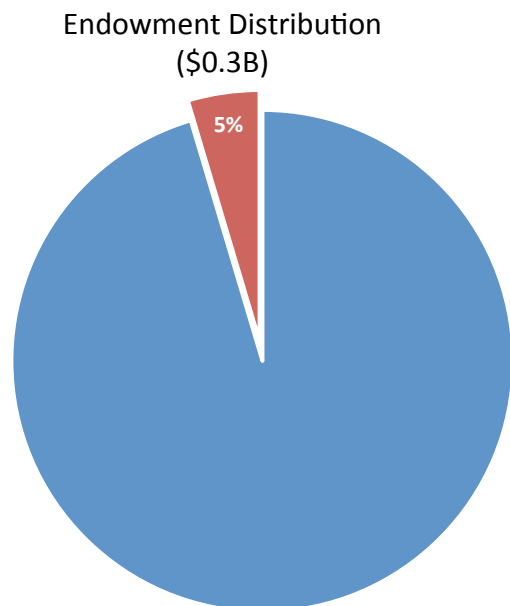
Long Term Investment Pool (LTIP) at Market Value (mainly endowment)



While the endowment's market value is significant, only a small portion can be accessed on an annual basis

FY14 LTIP Market Value:
\$5.9B

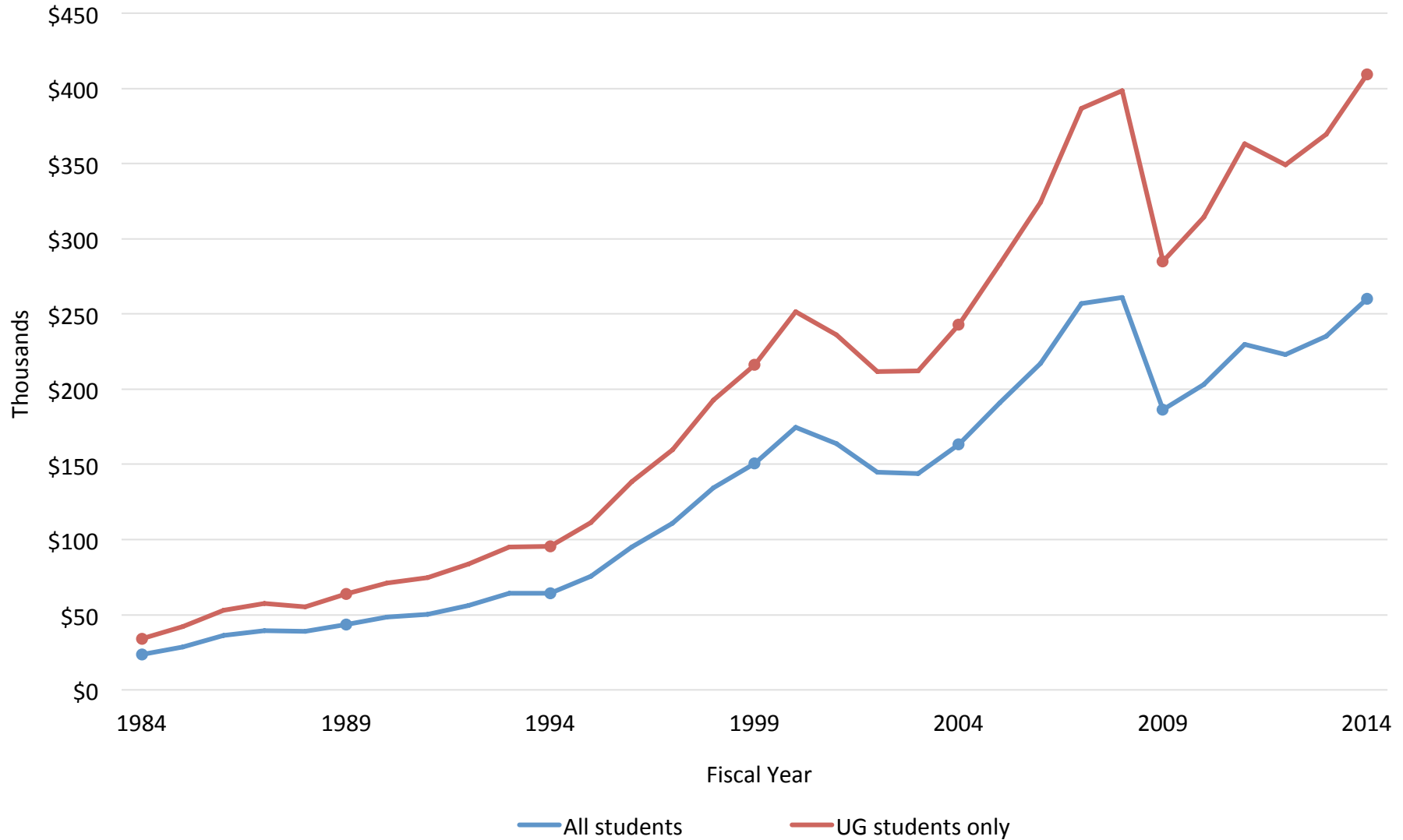
Endowment Flexibility:
76% restricted



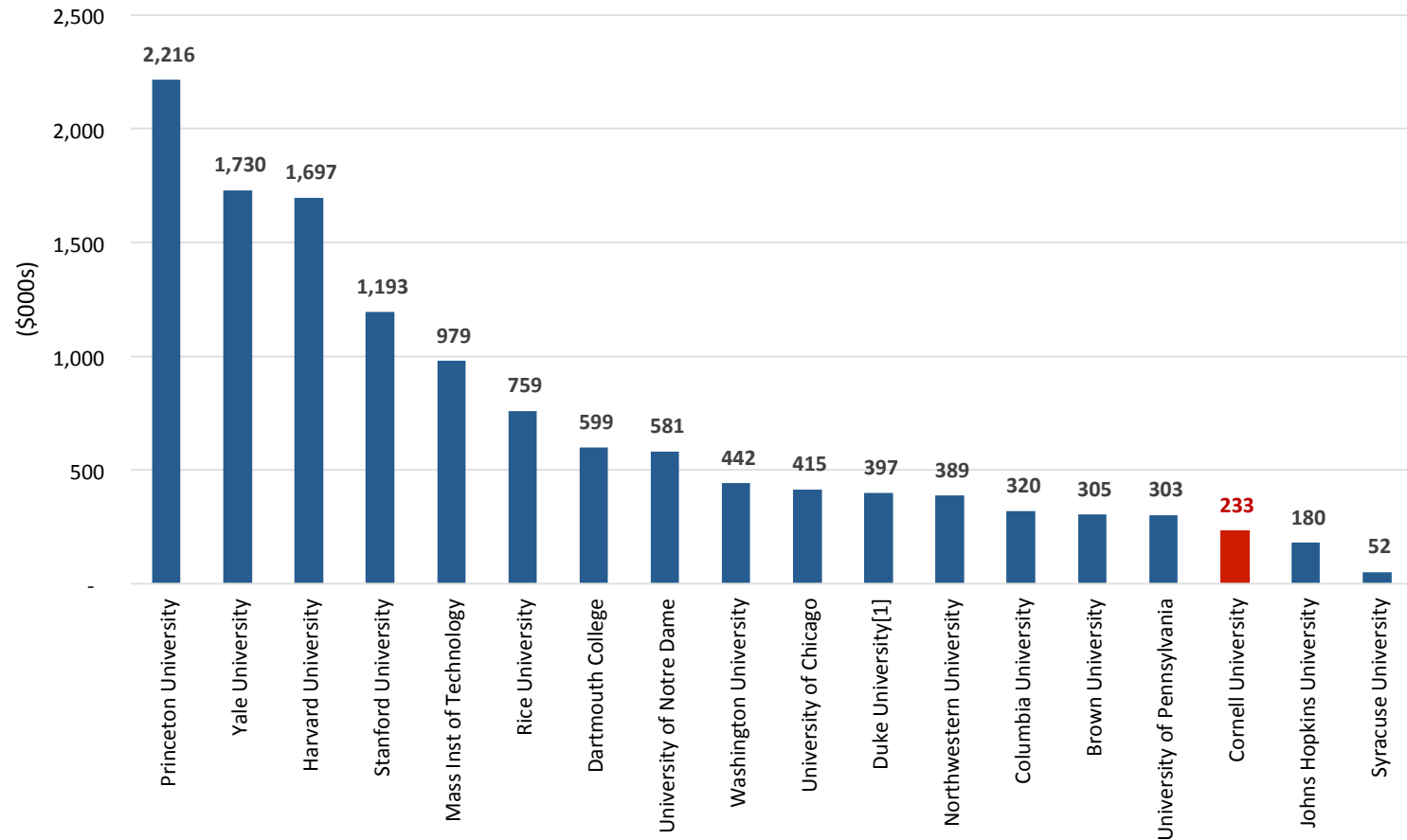
To sustain the endowment's purchasing power for future generations, Cornell targets a **spending rate equivalent to 5.75%** of the endowment's market value, based on an assumed **7% long-term market return**

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

Endowment per student

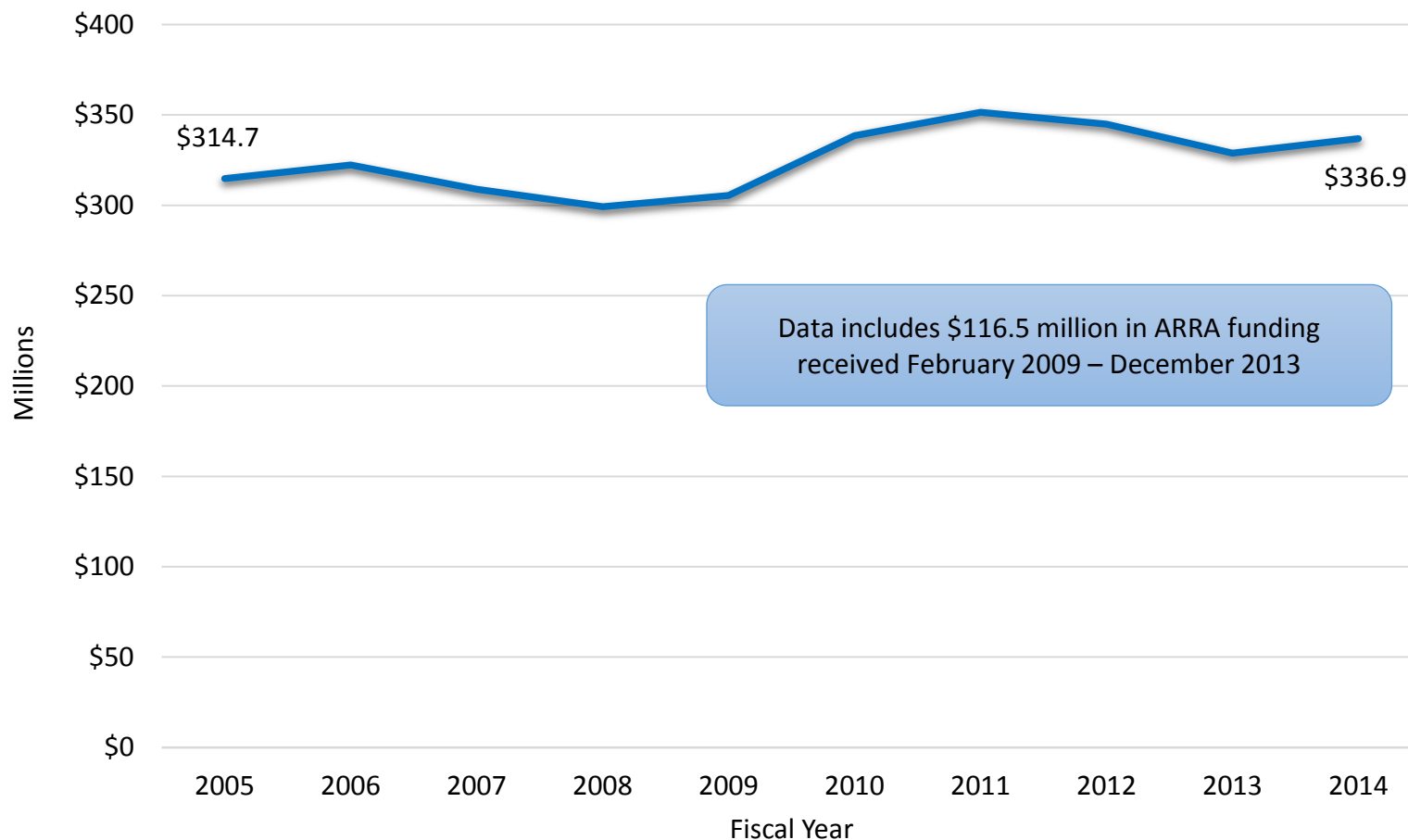


FY13 peer endowment per student

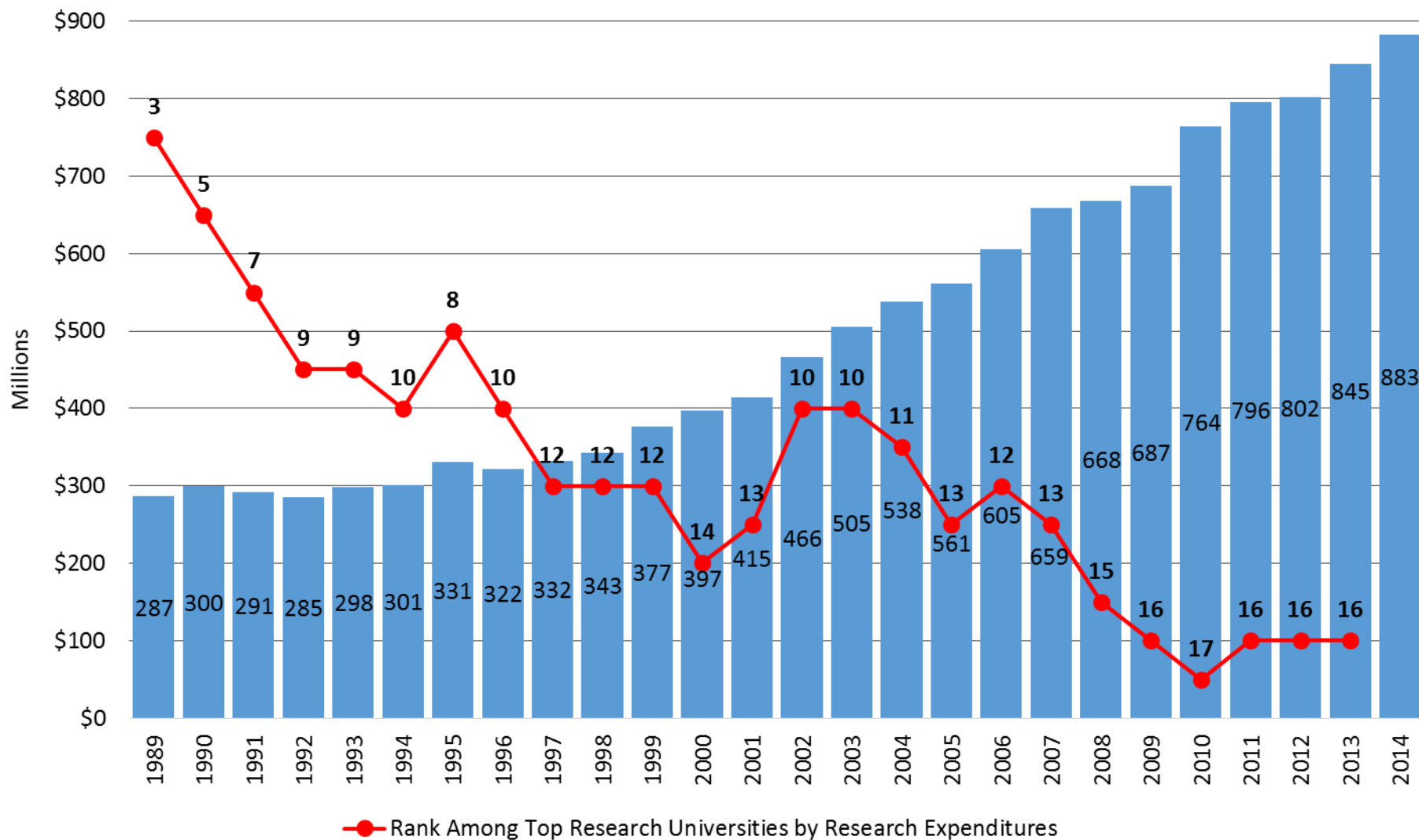


[1] Consolidated numbers

Ithaca campus federal sponsored revenues have had modest growth over the past decade



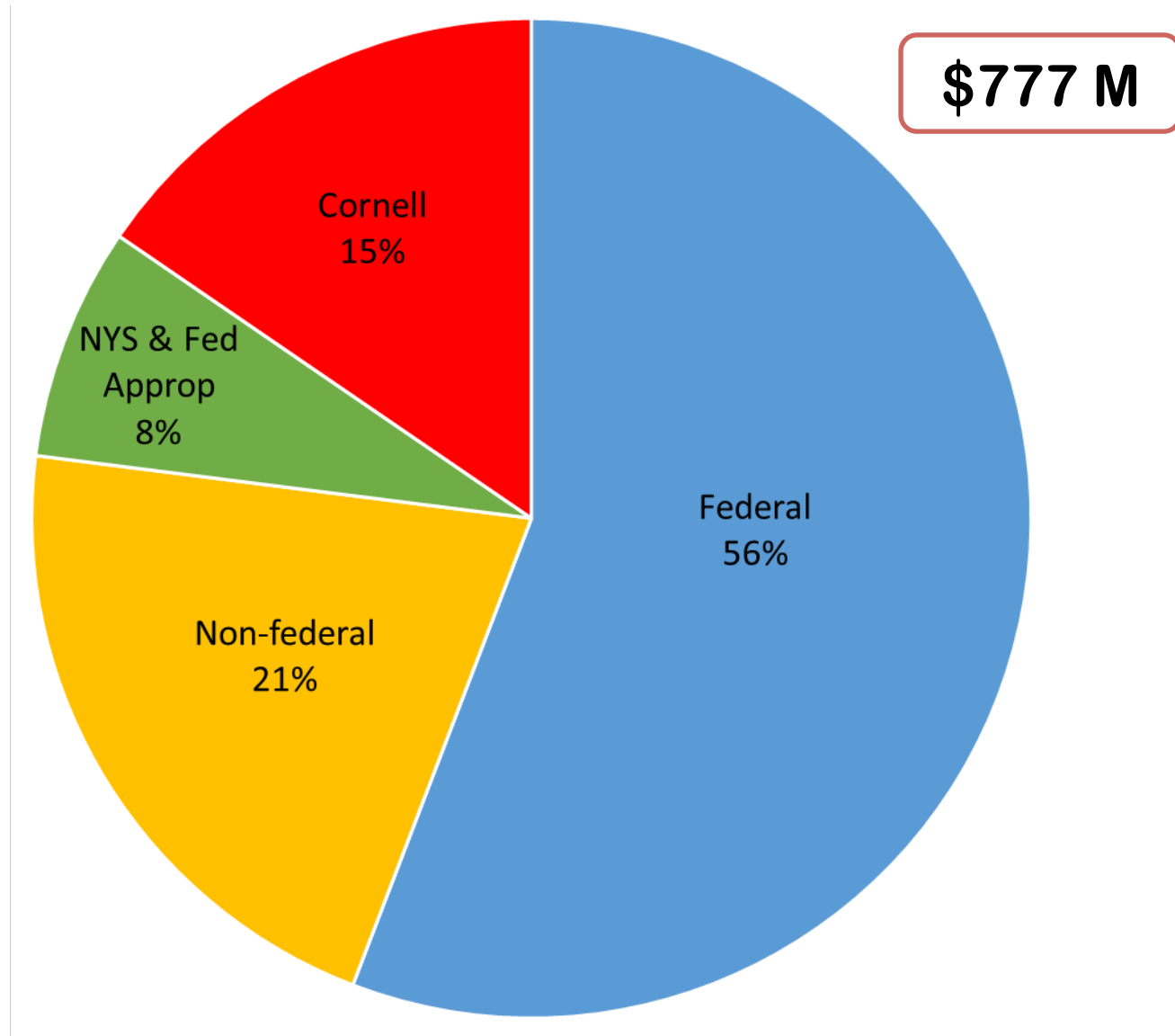
Cornell's Research Expenditures and Ranking



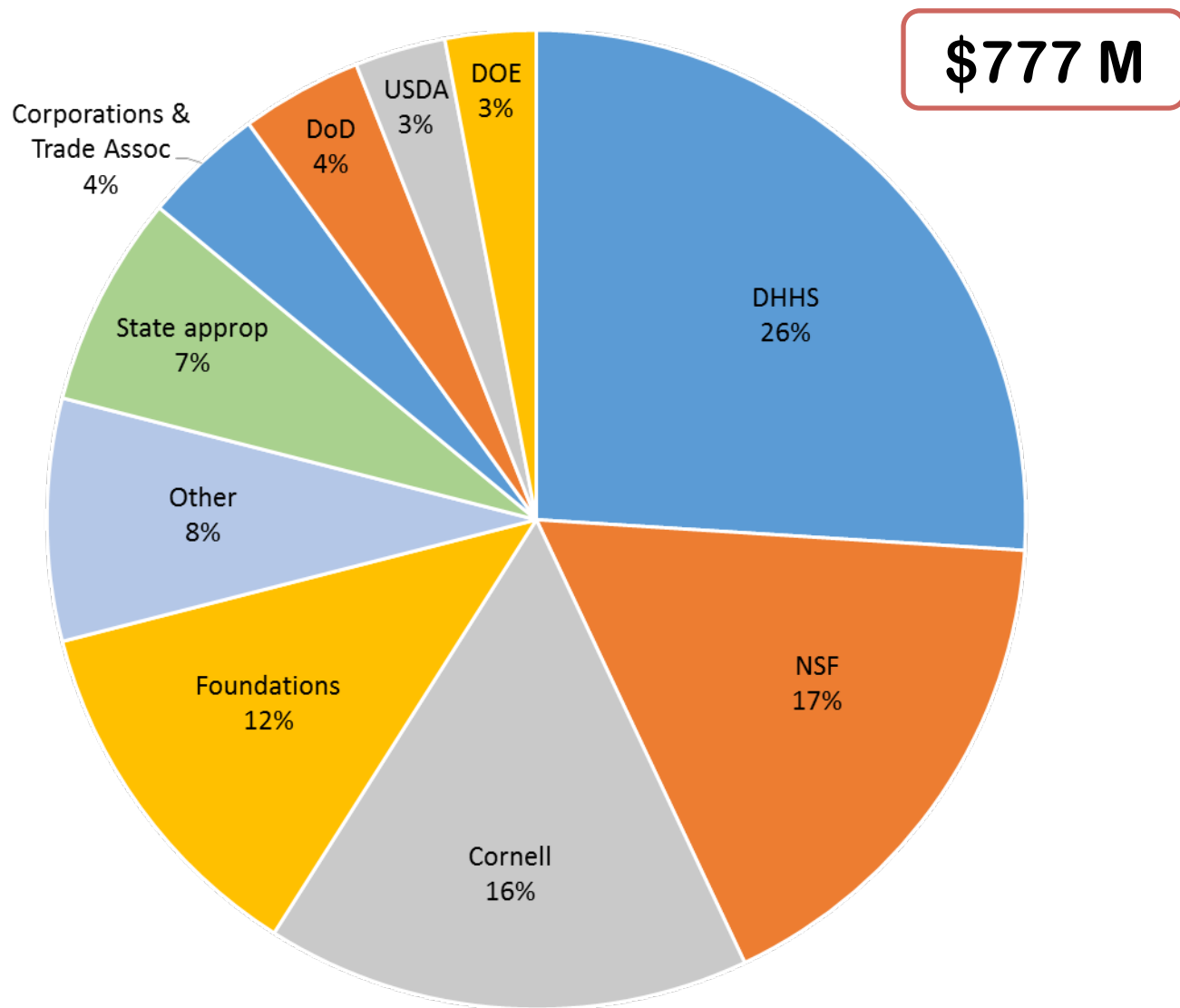
2014 ranking is not available

Source: 1989, 1990, 2013, 2014 = NSF published data; all other years = Cornell published data

Cornell's FY14 Research Expenditures by funding source



Cornell's FY14 Research Expenditures by funding source



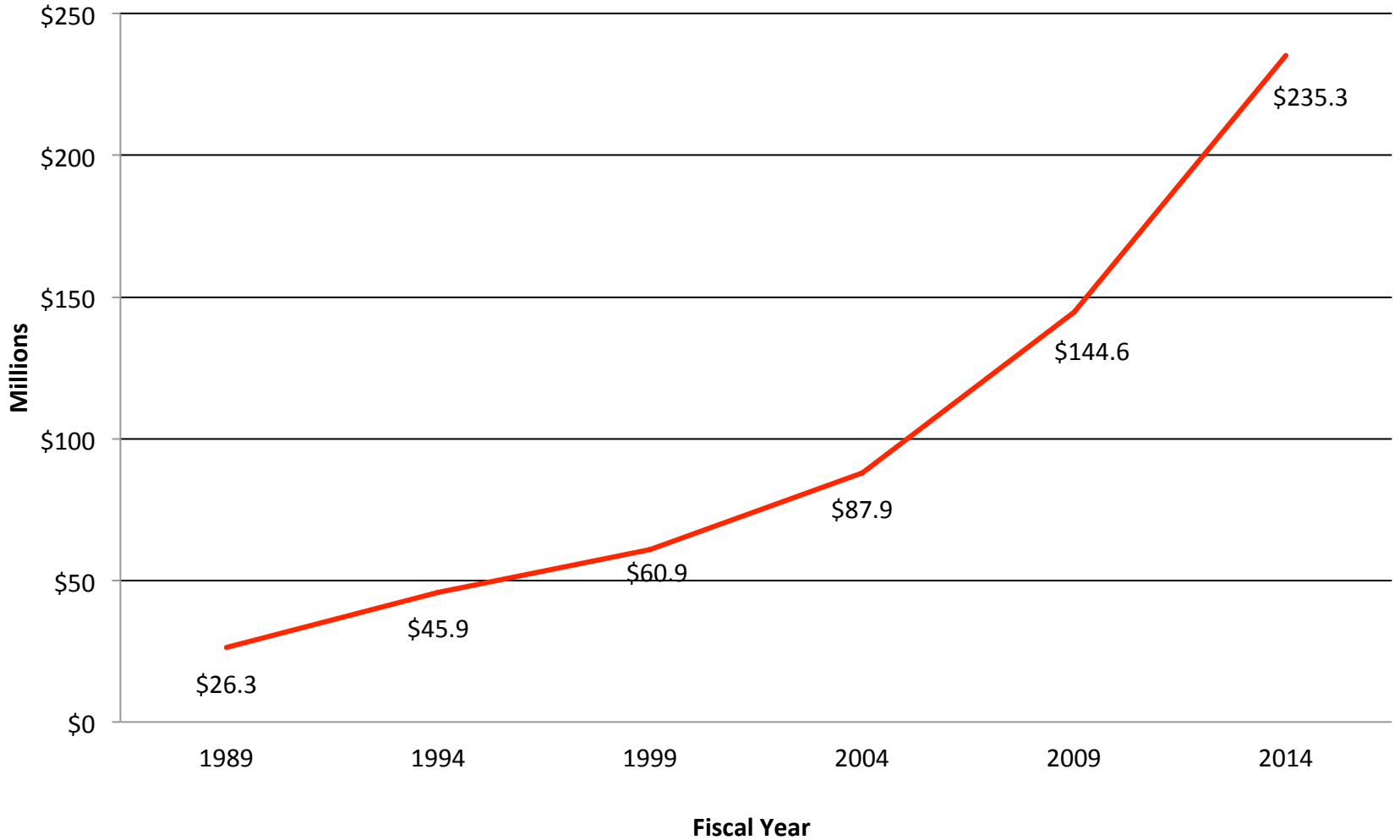
Cornell's New York State appropriated revenues have recently declined

NYS Appropriations

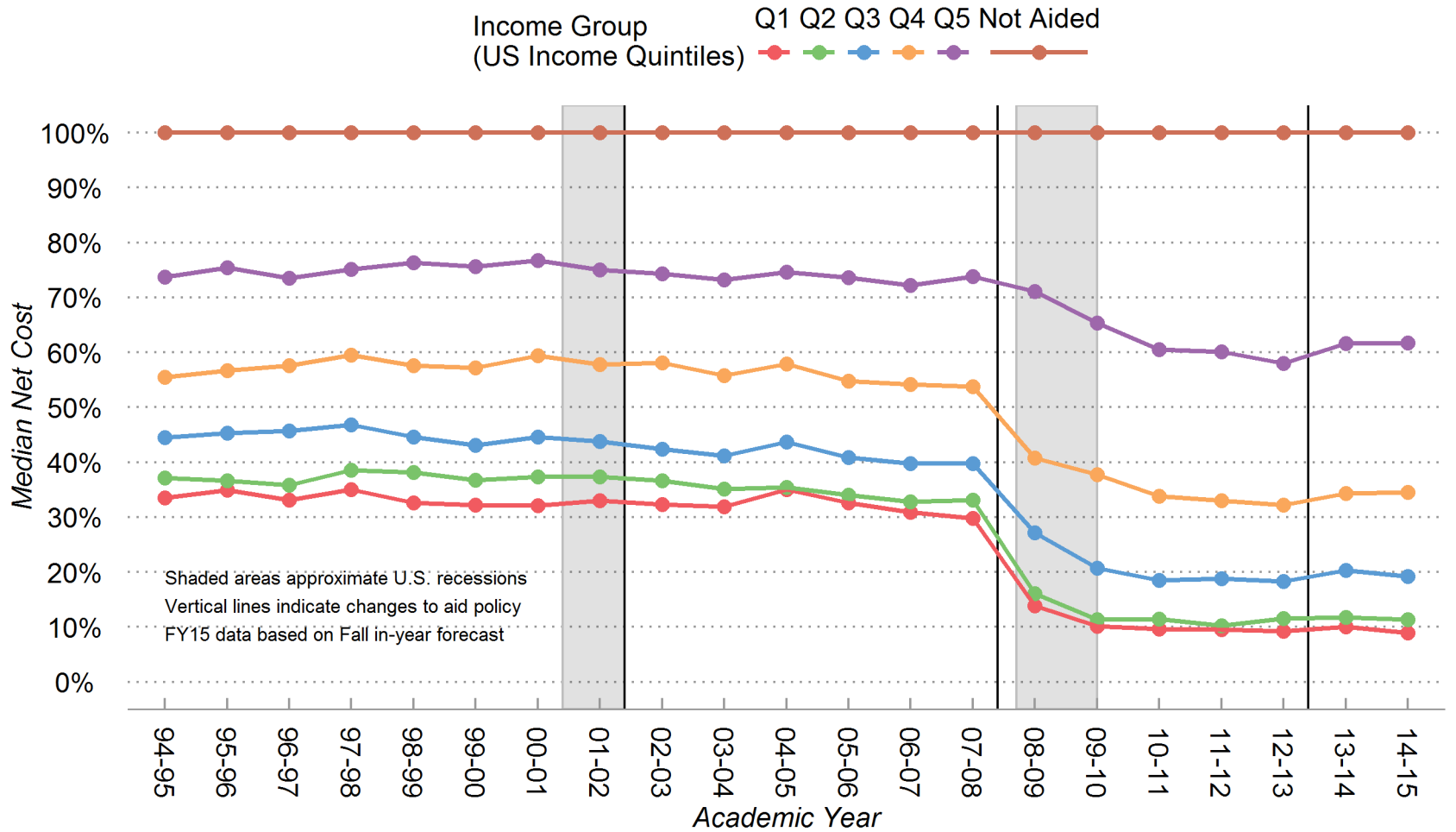


University wide commitment to financial aid remains strong

Undergraduate Financial Aid Expense



Median Ratio of Net Cost to Price, Endowed Sector

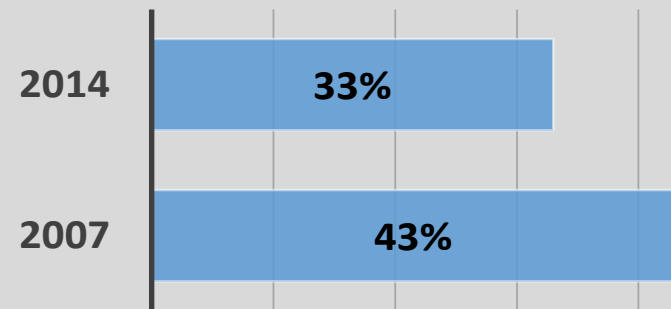


Undergraduate Debt is Limited

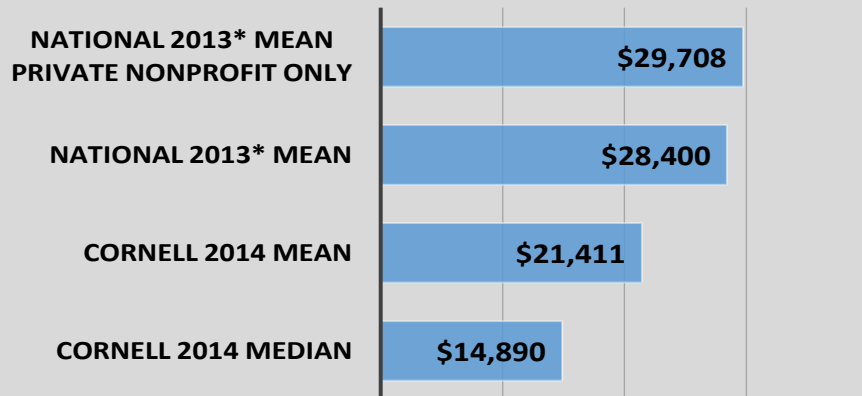
Maximum annual loan levels in financial aid packages correspond to family income:

Annual Loan Cap	Family Income
Zero	\$60,000 or less
\$2,500	\$60,001 to \$75,000
\$5,000	\$75,001 to \$120,000
\$7,500	Above \$120,000

% of enrolled Cornell students borrowing during the academic year



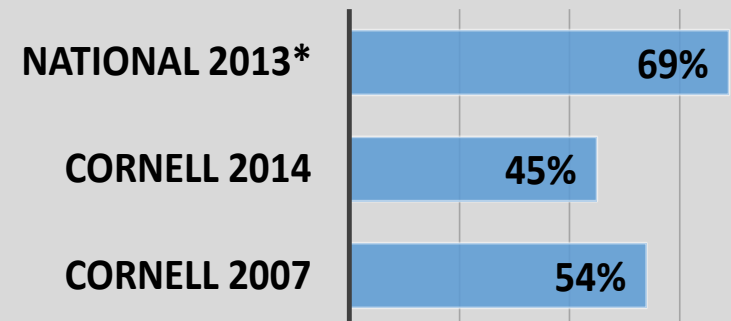
Debt at graduation
(students who borrowed)



*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

% of enrolled students graduating with loan debt



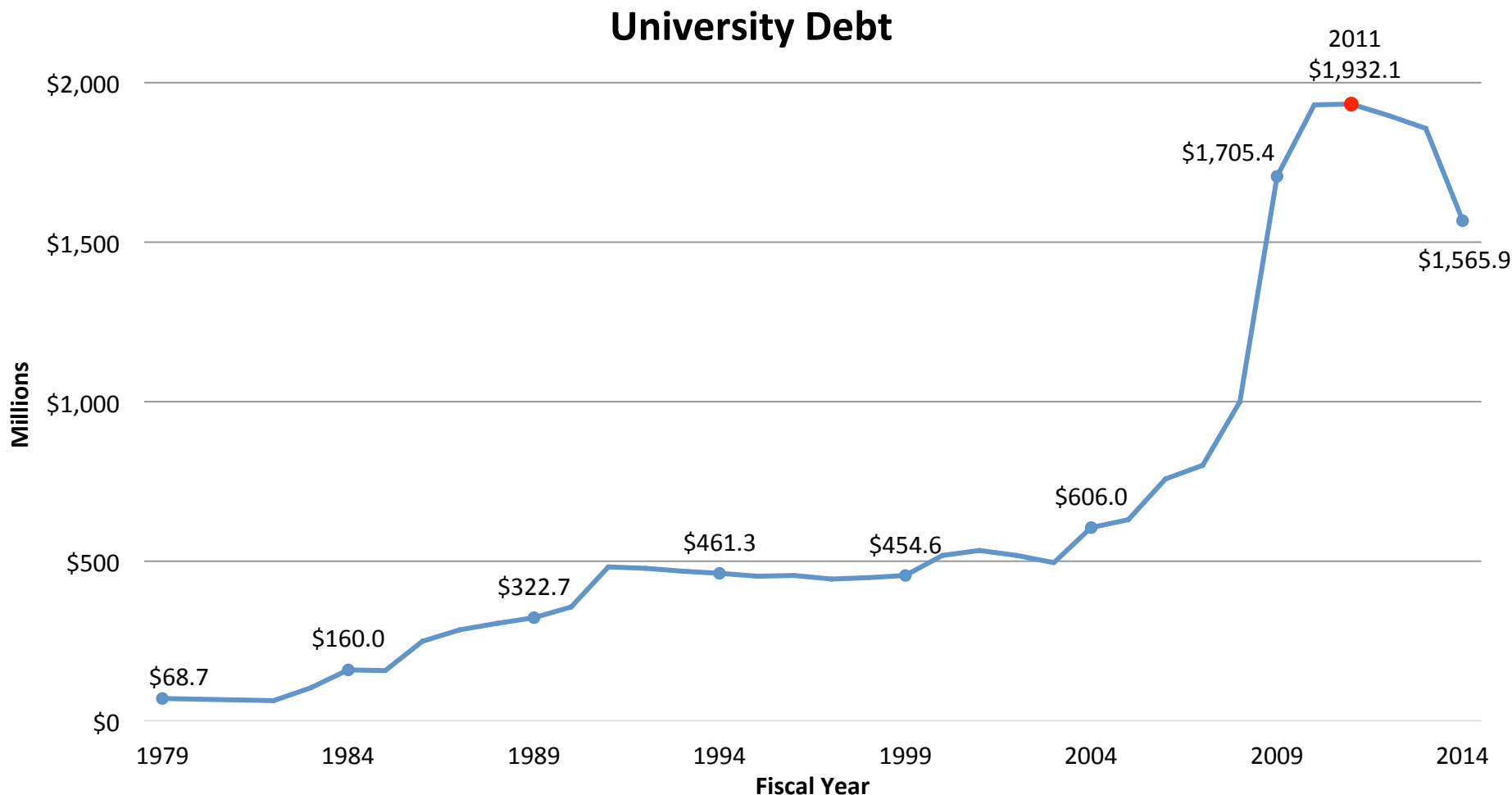
*National represents all students graduating from four-year colleges

Ithaca campus operating expenses: fixed and predictable

<i>(\$'s in millions)</i>	FY 2012	FY 2013	FY 2014
Wages and Benefits	1,041	1,083	1,128
Undergraduate Financial Aid	226	241	235
Graduate Financial Aid	138	140	143
General Expense	367	349	381
Utilities, Rent and Taxes	100	105	115
Debt Service	112	104	99
Other	48	108	88
Total Operating Expenses	2,032	2,129	2,189
Above expenses associated with Sponsored Research	401	387	416

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



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

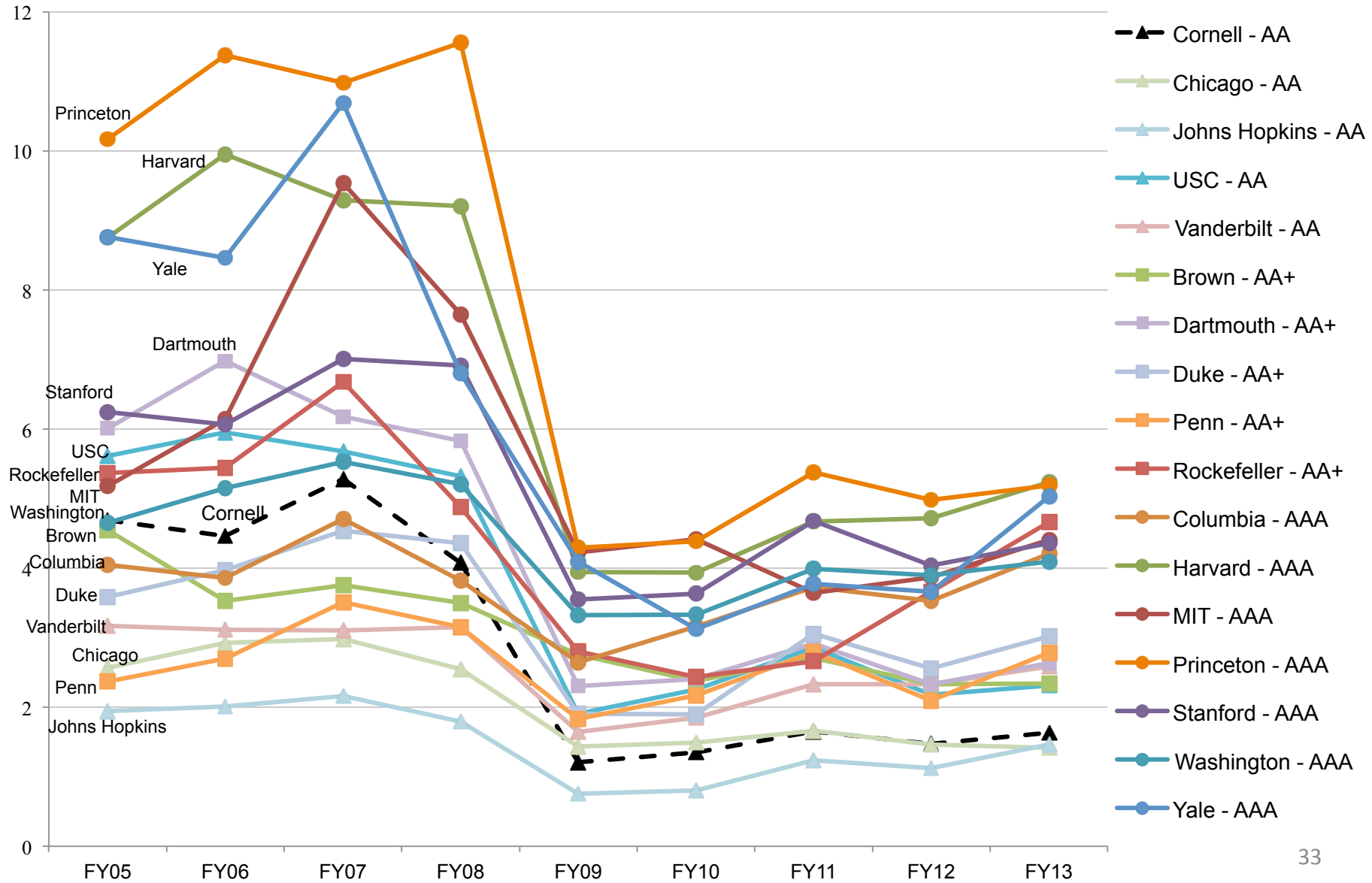
Ratings Scale

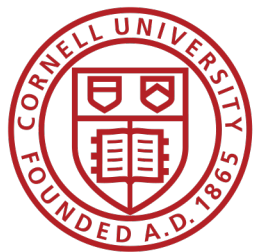
Moody's		Standard and Poor's
Aaa		AAA
Aa1		AA+
Aa2		AA
Aa3		AA-
A1		A+
A2		A
A3		A-
Baa1		BBB+
Baa2		BBB
Baa3		BBB-
Below Investment Grade		Below Investment Grade

↑ Credit Quality

Peer Comparison

Expendable Resources to Debt Ratio

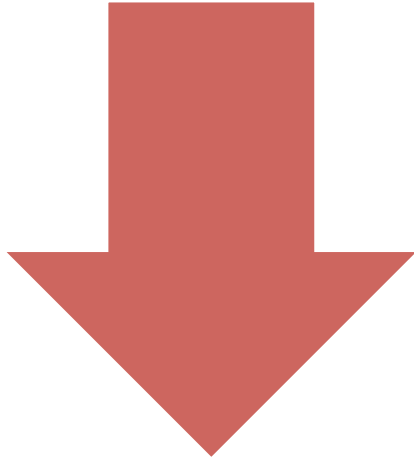




Looking Forward



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

Increase revenues

- Add academic programs
- Increase class size
- Philanthropy
- Increase number of research proposals
- Industry/foundation research funding
- Leverage assets (space, IP)
- Other ?

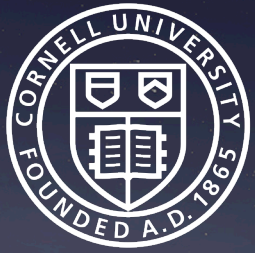
Decrease expenses

- Academic/research program changes
- Procurement savings
- Financial aid
- Reduce construction
- Outsourcing
- Administrative aggregations
- Other ?

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

