



***CACUBO's 39th Annual
St. Louis Professional Development
Workshop***

**Benchmark based Resource
Allocations that Improve
Cost of Capital, Financial Position
& Competitiveness**

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February 14, 2007

Complexities of a University

Universities Encompass Diverse Operating Industries

- Human Resource Management
- Academics
- Student Housing
- Food Service
- Laboratory Research
- Grounds Keeping - Landscape Management
- Athletics
- Donor Relationship Management
- Community Relations
- Advertising & Promotion

Building Long-term Financial Strength

Best-managed & Governed

- Building long-term financial strength is achieved through an active partnership
 - Management, and
 - Governing Board
- Management, effective governance & strategy are expanding determinants

Rising Factors

- Today's constrained balance sheets and revenues create a challenging job for business officers/financial managers
- Budget discipline in good times is key
- Those with discipline during the late 90's are in positions of strength, and
- Ideally – governing boards are effective

Effective Governing Boards

- Set strategic vision for the university
- Exercise judicious oversight of financial operations, and
- Support management

Management Teams

- Articulate the university's market strategies
- Prudently manage operating budgets and investment portfolios, and
- Maintain conservative approach to investments in facilities
 - Yet not overly cautious
- Develop meaningful decision-making metrics that inform the governing board

Business Officers

- Serve as the point guard in running the information offense
- Provide objective measures that cover a broad set of key performance indicators
- Develop expertise in reporting & informing the governing board, and
- Lend leadership to decision-making process

Business Officers

- Business officers are the bridge between management and the board
- Great business officers transform that bridge into an effective partnership
- Leading to strategic resource allocations, and
- Creating a sustainable competitive advantage for the university

Resource Allocations

Resource Allocation Demands

- Enhanced academic offerings / programs
- Deferred facility upgrades
 - Student housing
 - Collaborative learning spaces
- Student recruitment & retention
- Emerging medical, forensic & research laboratory technologies
- Deploying technological innovations
- Ongoing repairs & maintenance

Resource Allocation Drivers

- Revenue Constraints Continue to Drive Difficult Decision-Making
- Demographics Suggest Flat to Declining Student Populations in Midwest
- Student Housing Preferences Shifting
- Financial cushion for debt is shrinking
- State Appropriations under Pressure
- Tuition Increases Adversely Impacting Affordability

Resource Allocation Decisions

- Limited revenue growth adds another dimension to the Business Officer's role
- Fundraising is today's major emphasis
- Universities are Shifting from
 - Discreet capital fundraising campaigns to
 - Ongoing / perpetual fundraising emphasis
- Requires significant investment in soft costs
 - Human & admin. support resources

Providing a Framework for Resource Allocations

Resource Investment Optimization

- Deploy resource allocation strategy
- Provide exposure to a broad set of projects and programs
- Include internal rate of return assessment
- Establish hurdle rates for approval
 - Cost of capital plus an
 - Internal rate of return “cushion”

Pitfalls to Avoid

- Failure to focus on returns after true cost of capital
- Often universities are tempted to exclude donor provided funds as a use of capital that carries a cost
 - Some argue that the money is “free”
 - The funds do not carry an interest rate burden
 - Prefer to let the project only bear a cost of capital when associated with actual borrowings

Pitfalls to Avoid

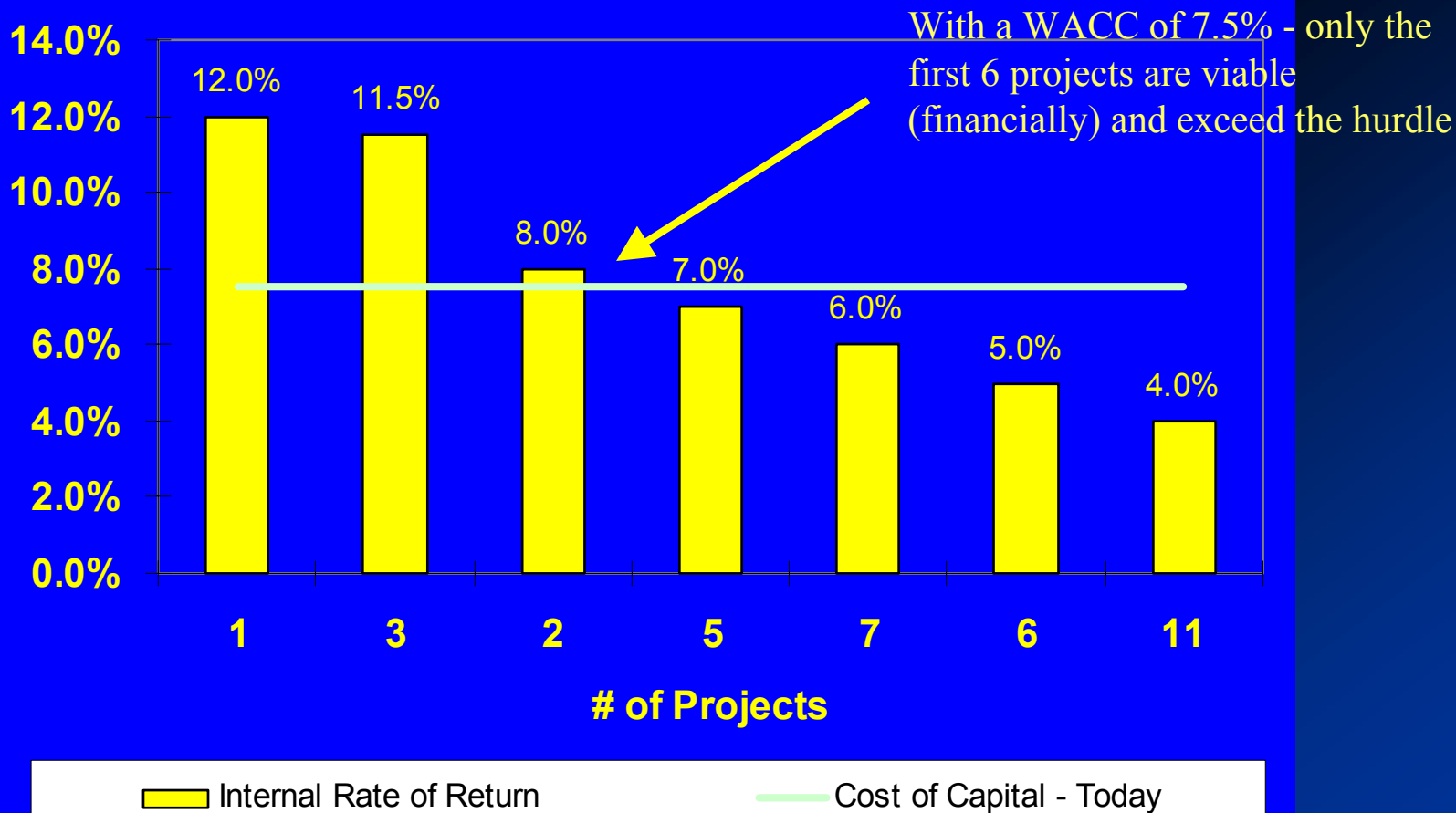
- Failure to include a “cushion” when establishing internal hurdle rate
- Temptation to minimize or eliminate reserve for contingent costs to initiate or implement
- Failure to properly anticipate ongoing operating costs
- Failure to establish a maintenance reserve fund for new facilities

Universities with Sustainable Competitive Advantages

- Reduce & minimize real weighted average cost of capital
- Continuously seek-out most profitable mix of projects to deploy
 - Adding/eliminating certain projects & programs
- Systematically re-evaluate hurdle rate
- Enhance endowments & reserves while minimizing risk

Lowering Weighted Average Cost of Capital Provides Leverage and Flexibility

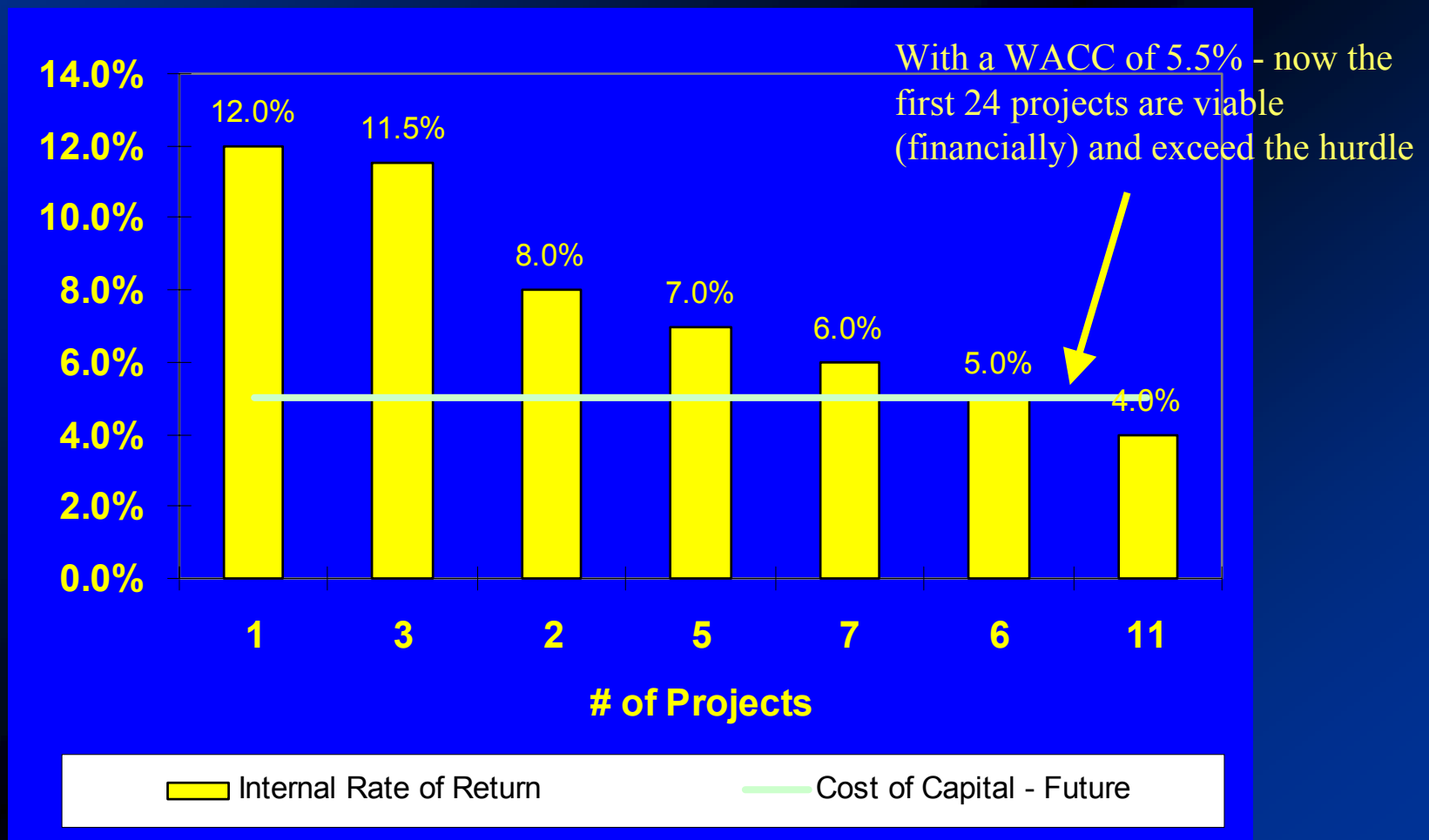
Prospective University Projects



Focus on Lowering WACC

- Reduce weighted average cost of capital
- Develop a portfolio management approach to issuing and structuring debt
- Include both long-term and intermediate-term maturities
- Include a mix of variable-rate and fixed-rate debt
- Consider swapping a portion of variable-rate issues to a synthetic fixed-rate

Prospective University Projects



Sustainable Competitive Advantage

- The strategic university
 - Allocates resources that build financial strength
 - Manages its cost of capital
 - Broadens the number of financially viable projects that it can pursue
 - Leaving less strategic universities scrambling to keep up

University Benchmarking and Peer Group Analysis

Criteria for Evaluating Key Performance Indicators

- Always benchmark against a strategic target
- When possible benchmark against a peer group
- Consider university's ability to substitute projects or programs to replace those that are reduced or discontinued

Managing the Gap

Managing the Gap

- Measure key performance indicators over a period of years
- Objectively establish peer group and target benchmarks
- Identify the gap between the university's metrics and the target
- Manage the gap to achieve desired outcomes

Live Demonstration - Morgan Consulting's Dashboard Approach



Morgan Consulting

On the Web at
www.MorganConsultingLC.com

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**Thank You for Viewing
this Presentation**

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