Hi Rob

You can find the FY21 profitability projections by departments and colleges below. I’ve also attached the Methodology and an excel file that has all the calculations here that you can peruse. The only thing that you wouldn’t find in excel is the data set up and projected revenues because I used machine learning to predict revenues, and all of that is code. A few things to note here:

1. I predicted revenues based on each course. The methodology is explained in detail in the attached document but it is good to note that my overall net revenue is only 65K off the projected revenue in the budget when you include externally funded scholarships because externally funded scholarships are treated as revenue in Donna’s files. I assume the budgetary projection was based on broad numbers and general Fall to Spring retention rate. So, it’s a nice way to triangulate my projections and gives me more confidence about the department and college level roll up.
2. The expense side is a little less certain, primarily because there’s a lot of money held up in Dean’s accounts and FDB data isn’t finalized – so a small share of expenses that need to be distributed by faculty ratios are distributed by student ratios. Right now my expenses are above $400K over the budgeted model. I am not sure why that is but we can discuss. I don’t think it changes the picture too much but we can do a couple of things going forward to improve that (I know Steven will be updating the budget in the coming weeks, so this might be a good time to ring in those changes):
   1. First, we can ask Deans to do preliminary allocations to departments. The money can stay in the Dean’s account and they should have the flexibility to change the allocation during the year but it serves two purposes:
      1. One, it makes it easier to estimate department and college level profitability
      2. Two, from the FP&A perspective, it allows us to make comparisons between estimated and actual expenses. The devil is in the details and in times like Coronavirus when departments and colleges have been asked to make budgetary cuts, comparing estimated and actual expenses by function and type at the department level allows FP&A to have a better sense of where there are bigger opportunities to make cuts instead of running a simple rule over all departments and colleges, each of them with very different relative realities.
   2. Second, since Adaptive is a new tool we are using, it will be useful to move away from simply an accounting way of budgeting and actually customize it for FP&A purposes. This means capturing budgeted expenses not only by function but also by type which would include direct, indirect, and auxiliary costs. But even with indirect costs, we can add a sub-category for indirect costs that apply to only specific colleges or undergrads or grad students etc. The greater the detail we capture the data, the better our analysis will be. This should be relatively easy to do as well.
3. In terms of projected profits compared to preliminary FY20 profitability results:
   1. CMM’s losses are likely to reduce while CNH, BU, and CAS are likely to loss making overall compared to the previous year where they were profitable.
   2. All colleges are likely to continue to maintain positive gross margins.
   3. At the department level, none of the departments are likely to have a negative gross margin. Law Clinic, separated out from the law school as a separate department is the only one with a negative gross margin.
   4. For department level profitability, Management stands out as estimated to make much higher losses compared to the previous year. That is because all of Business School expenses are bunched up in the dean’s account and have been allocated to departments based on student ratios. This means that other BU departments look profitable while Management does not. This should change in the post-FY21 analysis. But again, another reason to heed the suggestions in point 2 above.
   5. Outside of the BU issues, the rest of the departments are kind of on par with the previous year, with some level of negative changes. One major change, however, is in nursing. It is expected to make losses and had been profitable for the past few years. Their total expenses haven’t changed a whole lot, maybe a little decline, so I imagine its down to reduced revenues.

Let me know if you have any questions.

Best

Shashank

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