

**University Budget Council**  
**Eastern Michigan University**

**Final Report to the Board of Regents**

**May 13, 2014**

The following is an overview of the activities of the University Budget Council for Fiscal Year 2014 and recommendations from the Council to the Board of Regents for their Fiscal Year 2015 budget considerations.

**Introduction**

FY 14 marked a transition year for the Budget Council due to a number of items;

1. Colin Blakely, long time chair, stepped down and a new chair, Don Keller, was elected.
2. The new Faculty Senate Budget Committee was established
3. By-Laws had to be revised
4. Membership composition had to be adjusted

Resolving these issues occupied the council's focus for much of the fall semester. Item #2 in particular required careful consideration as we worked to develop structures through which the Faculty Senate Budget Committee and University Budget Council could create open structures of communication so as not to work at cross purposes with each other.

As has been done in the last two years, the council split into sub-committees to develop board recommendations. This year three sub-committees were formed, Long-term Budget Planning, Flexible Budget Structure, and Pricing/Revenue Enhancement. The Cost Structure Priorities Committee from previous years was suspended in order to focus efforts more intensely in on the other three areas.

Over the Year, September to April, four motions were brought to the council for its consideration, three from the Long Term Budgeting sub-committee and one from the Pricing/Revenue Enhancement sub-committee. The Flexible Budget Structure sub-committee spent some time discussing the establishment of performance metrics for the various areas of the university, however was not comfortable in submitting a formal recommendations to the Council for a vote without involving more individuals and accumulating more data.

## **Motions Passed by Council**

The Long-term Budget Planning – This sub-committee submitted three packages of motions for council consideration. The first motion related to Strategic Planning and read:

“The University Budget Council expresses its support for the Strategic Planning process. After several years of discussion and development, the Strategic Plan should be finalized as soon as possible. As the process moves to finalization and implementation, we encourage a focus on areas of distinction where EMU can build on its strength in the coming years. In this context, highlighting a few key priorities, among goals and initiatives, to help guide the University in difficult budgeting and resource allocation decisions will be useful.”

The second package, see appendix A, relates specifically to the 2014-2015 budget development process and highlighted three cautionary issues;

1. Though EMU has been successful in attracting larger incoming freshman classes, the larger classes have been offset by low retention rates, higher graduation rates, and lower numbers of transfer and graduate students. Therefore, the 2015 budget should be based upon conservative enrollment assumptions.
2. Increases in financial aid provided to incoming freshmen have had the effect of negating otherwise expected tuition increases. Due to this, budget planning should be done on a “net tuition revenue” basis.
3. Budget planning should be done utilizing a five-year planning horizon.

The third package, see appendix B, of motions from this sub-committee adds additional language to a set of motions passed last year. The additional language relates to:

1. Item seven in last year’s motion related to providing funding for maintenance and enhancement of EMU buildings, grounds, and equipment. The additional wording specifies that annual budgets should include specific allowance for standard depreciation of physical assets to provide funding for this.
2. A new item 9 was added, which deals specifically with expanding the budgeting horizon consideration to five years.

All Motions submitted by the Long-term Budget Planning sub-committee were approved by Council.

Pricing/Revenue Enhancement - This sub-committee discussed and reviewed a number of items related to revenue enhancement, but only submitted one motion for council consideration. The motion related to recommended tuition increase for fiscal year 2015 and read as follows:

“The conflicting forces of addressing our rising costs and improving/enhancing academic quality while maintaining EMU’s affordable image should be addressed with a tuition rate that allows us to maintain our relative standing in terms of affordability, yet takes meaningful steps to address the challenges facing the University.”

“In the absence of a complete overhaul of the tuition pricing model, UBC recommends that the Eastern Michigan University Board of Regents increase tuition the maximum allowed by the State of Michigan while still preserving appropriation performance funding. Eastern has steadfastly limited tuition increases over the past five years, so much so that it has had the lowest tuition dollar increase during that time. By recommending the maximum amount allowed by the State, the University will be entitled to additional appropriation performance funding from the State and will continue to be viewed as an outstanding value for our current and prospective students and their families.”

This motion was approved by Council

### **Future Activity**

At its final meeting, the council discussed plans for 2015. Council members have a strong interest in reviewing in depth various tuition issues and submitting a combined motion to the Regents in 2015. There is also interest in reviewing how Council might be able to recommend activities and strategies in support of the University Strategic Plan.

In the area of tuition, the council would like to review three areas; tuition simplification, differential tuition, and block tuition. The council hopes that by submitting an integrated set of motions the Board of Regents might be willing to go forward on tuition structure revision. Following is some background on Council consideration of these issues;

- Tuition Simplification – In 2013 the council submitted a detailed recommendation to the Board on simplifying tuition. It is council’s understanding the Board did not implement the change because of the feeling that tuition changes should not be made in a piecemeal manner. Probably the only work needed in this area is reviewing its continued appropriateness and updating the numbers
- Differential Tuition – Council casually discussed differential tuition in 2012, and in 2013 the Pricing sub-committee reviewed it in some detail in support of work being done by Kevin Kucera. No motion to the Board was made because surveying, planned by Kevin, had not been completed.
- Block Tuition – The Pricing sub-committee reviewed block tuition in 2012 and found much support from council members. The sub-committee did not choose to formalize its findings into a motion for the board because members felt their information was preliminary and needed more validation and thought.

The council feels that if each issue is assigned to a specific sub-committee by April we should be able to have a fully documented and supportable position to recommend to the Board.

Moving forward, the council looks forward to continuing to work with the Board to develop a sound budget for FY15 and beyond. We welcome any input and/or charges the Board might be interested in conveying to the council.

Respectfully Submitted,  
Don Keller  
Chair, University Budget Council

## Appendix A

### Recommendations for 2014-15 Budget

(Approved by University Budget Council, March 18, 2014)

The University Budget Council re-endorses the **Long-term, Strategic Budgeting** recommendations it approved in December 2012, with revisions as shown on the next page regarding depreciation and long-term budget projections. In addition, UBC recommends that particular attention be paid to the following items in formulating the budget for 2014-15:

- 1) As identified in items 1 and 2 from the **Long-term, Strategic Budgeting** recommendations, generating growth in student credit hours in the current environment is very difficult. Through aggressive use of targeted student aid, EMU has been very successful the past two years in attracting large incoming freshman classes. However, this has been offset by increased graduation rates, continuing low retention rates, and lower numbers of incoming transfer and graduate students. Thus, next year's budget should be based upon conservative enrollment assumptions. **(Unanimously approved)**
  
- 2) As identified in item 3 of the **Long-term, Strategic Budgeting** recommendations, budget planning must be made on the basis of **net tuition revenue**. Given increases in financial aid in the past two years to attract more in-coming freshmen, much of the % increase in tuition and fee rates has been offset by increases in financial aid, yielding minimal increase in net tuition revenue. Since the increases in financial aid are entering the third year of a four year implementation process, this policy to attract new students will continue to limit increases in budgeted net tuition revenue for the next two years, even if tuition and fees are increased at the maximum 3.2% recommended by the Governor. This will place significant challenges on budgeting for the next two years. **(Approved, with one abstention)**
  
- 3) A key addition to the **Long-term, Strategic Budgeting** recommendations is item 9, which recommends the use of five-year budget projections for all university activities as the budget plans are formulated each year. We encourage its continued application and development. **(Unanimously approved)**

## Appendix B

### Long-term, Strategic Budgeting

(University Budget Council, Dec. 18, 2012, amendments in **bold** approved March 18, 2014)

Given the extremely challenging environment in higher-education funding and recruitment, disciplined budgetary practices are essential for long-run success in higher-education.

Therefore, the University Budget Council recommends to the Board of Regents that the following principles for long-term, strategic budgeting be followed each year:

1. With declining cohorts of high school graduates and declining enrollments in community colleges in Michigan, budgets should be formulated on the assumption of little or no enrollment growth and with recognition of a potential for declining enrollments.
2. Any assumption of increased enrollments should be based upon specifically identified and funded sources of enrollment increases, such as increased retention or recruitment of targeted populations identified by independent marketing analysis.
3. Careful recognition must be given to the trade-off between tuition discounting (financial aid) and net tuition revenues. Any decision to increase tuition discounting (increase the % of tuition used to fund financial aid), should be carefully targeted as a means to increase net enrollment without jeopardizing funds available to support the quality of academic programs.
4. It is important that EMU adequately fund recruitment and retention of high quality faculty and staff who are devoted to student education and engagement, research, and community service.
5. As indicated in a previous UBC resolution, budgets should not be approved that contain a “savings to be identified” component.
6. Given the inevitable occurrence of unexpected, emergency expenditures, an adequate contingency should be included in the budget each year.
7. Long-run viability requires adequate funding for maintenance and enhancement of EMU’s buildings, grounds, and equipment. **Allowance for standard depreciation of physical assets, to provide for maintenance, replacement and other capital funding, needs to be directly incorporated into the annual budget process.**
8. Given EMU’s high net debt ratio, budgets should be designed to target annual operating surpluses needed to increase reserve balances to a more appropriate level.
9. **In implementing these budgeting principles, Eastern Michigan University should make annual budget decisions within the context of five-year budget projections that include all university activities, including the operating fund, auxiliaries, and the plant fund.**

In the current, challenging financial environment, achieving these principles will require difficult choices year after year. However, doing so is essential to maintaining and strengthening the academic quality of EMU and the numerous benefits EMU provides to the citizens of Michigan.