

University Budget Council
Eastern Michigan University
Final Report to the Board of Regents
April 25, 2016

The following is an overview of the activities of the University Budget Council for Fiscal Year 2016 and recommendations from the Council to the Board of Regents for its Fiscal Year 2017 budget considerations.

Introduction

The first meeting of FY16, of the UBC was September 22, and was a general update on the prior year's motions and activities. Chief financial officer Mike Valdes and Todd Ohmer, executive director of financial planning and budgets, provided an update on the FY16 budget.

Chairmen Don Keller gave a report on his meeting the previous April with Regent Mary Treder Lang, chair of the board's finance and audit committee. Don noted that the Board of Regents had approved a 7.8% increase in tuition for FY, 16, and indicated his impression that the Council had helped influence the board in deciding on this issue. In addition, Chairman Keller announced his retirement, effective January 2015 and thus, a new chair would need to be elected.

A new chair was not elected due to lack of a quorum. Members were encouraged to either consider running for chair or speak to members about running for the position. In addition, those present came up with a list of possible topics for the sub-committees to explore. It was decided that the two sub-committee structure, Short Term Budget Issues and Long Term Budget Issues, from the previous year worked well and would continue.

October meeting – no quorum. Poll members to see if day/time needs to be changed.

November 2, 2015 meeting. Colleen Croxall, from the College of Health and Human Services, was elected UBC chair, succeeding Don, who had served two years in the position. Don received well-deserved thanks for his service to the council.

A number of budget updates were made to the council and subcommittees through the year. Dave Crary, chair of the Long-term Budgeting Committee, outlined a variety of discussion items that the long-term committee would likely be working on for the remainder of the year:

- The long-term implications of tuition simplification.

- Trends for the financial aid budget, noting that FTIAC enrollment is up at Eastern and that graduate students and transfers are down. To what degree should aid be shifted to those directions?
- Budget adherence
- Should athletics be moved to the auxiliary budget?
- Retaining budget surpluses in individual departments in which they result.
- What help can faculty and others offer the development office in fund raising?

Anne Balazs, Chair of the Short-term budgeting committee noted various items of overlap between the two subcommittees, and included the following discussion items:

- Grad student enrollment and how to increase international enrollment.
- Question from the Higher Learning Commission: How are we planning for the sustainability of Eastern financially?
- Setting of tuition for next year, factoring in questions of block tuition and program fees.

Student Body President Steven Cole outlined a variety of initiatives Student Government would be pursuing this academic year. These included:

- A tuition rebate, to incentivize retention at Eastern.
- A study of how athletics can be made more self-sufficient and draw less upon general fund money largely supplied by student tuition.

Robert Carpenter, Faculty Senate Budget Committee, gave an update, which included the following activities:

- The committee meets bi-weekly.
- The committee is looking at the discount rates Eastern applies to tuition, that is, how much of each tuition dollar goes to financial aid and not to operations.

Over the year, September to April, seven motions were brought to the council for its consideration, five from the Long Term Budget Planning sub-committee and two from the Short Term Budget Planning sub-committee.

Motions Passed by Council

The Long-term Budget Planning – This sub-committee submitted two resolutions for council consideration at the February meeting. The resolutions were unanimously supported by UBC.

Resolution 1: *Given historical data on actual and budgeted SCH distributed at the Dec. 7 UBC meeting, it is recommended that the FY17 budget be formed on an assumption of a decline in SCH from estimated actual SCH for FY16. Size of the decline in SCH should be determined by the April 2016 UBC meeting.*

Resolution 2: *Given that most universities in the Mid-American Athletic conference report athletics as a subsidized auxiliary enterprise, it is recommended that EMU's athletic budget be moved from the general fund to its own auxiliary fund. This will promote ease in comparison with other institutions and provide greater transparency of the cost and benefits of the athletic program.*

In addition to these resolutions, this sub-committee submitted three motions for council consideration at the April meeting. The first motion related to some edits the subcommittee felt should be made to a Long Term Strategic Budgeting motion first approved by council in 2012. See Appendix A for changes in bold.

The second motion, see Appendix B, relates to the differential tuition paid by out-of-state students.

- *It is recommended that EMU consider lowering out-of-state tuition differentials at both the undergraduate and graduate levels to reflect the dramatic reduction in the share of funds coming from state government. Final decision should be based on analysis of current number of students paying out-of-state tuition and potential increase in out-of-state students if differential is reduced. Consideration might be given to different out-of-state rates for domestic and foreign students.*

The third motion, See Appendix B, related to Program fees for 300 and 400 level courses.

- *It is recommended that EMU consider rolling 300 and 400 level "program fees" into tuition, as was done with these fees at the graduate level in the past year.*

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

Short Term Budget Planning - This sub-committee discussed and reviewed a number of items related to establishing a flat rate or block tuition, simplifying the fee structure and tuition rate for 2016-17, see Appendix C. Two motions were brought forward to the council for vote at the April Meeting.

The first resolution related to establishing a Flat Rate or Block tuition and Simplifying the Fee Structure.

- *Given the benefits and expected increase in revenue and the graduation rate that is correlated with this change, the UBC recommends setting an undergraduate block tuition rate for the FY18 academic year along with a simplification and consolidation of the fees assessed students regardless of block tuition.*

The second resolution related to tuition rates for 2016-17.

Given the above history and the degree to which public perception is associated with a fiscally responsible public university, and particularly after the University significantly exceeded the tuition cap last year, the UBC recommends increasing tuition by no more than the cap ultimately provided for in Governor Snyder's FY17 budget. The UBC acknowledges that last year's increase was an unusual but highly necessary measure and that, given our current financial state, we continue to pursue other long-term sources of revenue while aggressively controlling expenses.

These motions were approved by Council.

Future Activity

Both committees plan to continue the work in these areas. A tentative schedule for both full council and sub-committees has been set and the UBC Chair has been re-elected. The council looks forward to continuing to work with the Board to develop a sound budgeting process and recommendations for FY18 and beyond. We welcome any input and/or charges the Board might be interested in conveying to the council.

Respectfully Submitted,

Colleen L. Croxall
Chair, University Budget Council

Appendix A

Long-term, Strategic Budgeting

(University Budget Council, Dec. 18, 2012, March 18, 2014, April 14, 2015, amendments in **Bold** for consideration on April 4, 2016)

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. A significant structural budget deficit has developed in the General Fund Budget over the past few years due to unbudgeted declines in enrollment. As indicated by the attached budget projections, significant action will be needed to bring the budget into balance for FY2017 and beyond.**
2. 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 from prior year actuals and with recognition of a potential for declining enrollments. **It is recommended that budget for FY2017 be based upon student credit hour production of 495,000.**
3. 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.
4. 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.
5. 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.
6. As indicated in a previous UBC resolution, budgets should not be approved that contain a “savings to be identified” component.
7. Given the inevitable occurrence of unexpected, emergency expenditures, an adequate contingency should be included in the budget each year.
8. Long-run viability requires stabilizing 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.
9. 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.
10. 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, **athletics**, 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.

Eastern Michigan University-University Budget Council
 General Fund Three-Year-Ahead (Cash-Basis) Budget Projections

	(all \$ values are reported in '000's)											
	Fiscal Year 2015			Fiscal Year 2016			FY17	FY18	FY19			
	Budget	Actual	Better (Worse)	Budget	Forecast 3/14/2016	Better (Worse)	Projected Budget	Projected Budget	Projected Budget	Projected Budget	Projected Budget	Projected Budget
Student Credit Hours	524,880	513,034	(11,846)	520,756	505,000	(15,756)	495,000	490,000	485,000			
Revenues												
All Tuition and fees	\$ 219,800	\$ 212,600	\$ (7,200)	\$ 229,300	\$ 225,800	\$ (3,500)	\$ 227,500	\$ 232,000	\$ 236,700			
Investment income	3,000	500	(2,500)	1,500	0	(1,500)	-	-	-			
State appropriations	72,400	72,600	200	72,700	72,700	0	74,200	75,600	77,100			
Athletics	2,100	1,800	(300)	2,600	2,300	(300)	2,100	2,200	2,300			
Other	5,300	5,700	400	5,800	5,900	100	6,000	6,200	6,400			
Total Revenues	\$ 302,600	\$ 293,200	\$ (9,400)	\$ 311,900	\$ 306,700	\$ (5,200)	\$ 309,800	\$ 316,000	\$ 322,500			
Expenses												
Salaries	\$ 143,500	\$ 145,300	\$ (1,800)	\$ 144,000	\$ 147,400	\$ (3,400)	\$ 150,300	\$ 153,400	\$ 156,400			
Fringes	53,400	52,900	500	54,100	55,000	(900)	57,300	59,800	62,300			
Total Personnel Costs	\$ 196,900	\$ 198,200	\$ (1,300)	\$ 198,100	\$ 202,400	\$ (4,300)	\$ 207,600	\$ 213,200	\$ 218,700			
Financial Aid	43,500	44,200	(700)	48,500	51,400	(2,900)	54,200	55,800	57,500			
Services, Supplies, and Materials	36,000	37,500	(1,500)	37,600	35,600	2,000	38,600	39,600	40,600			
Utilities	4,900	4,900	-	4,900	4,400	500	5,000	5,300	5,500			
Debt Service, Asset Preservation	16,300	16,300	-	16,100	16,100	-	16,100	16,100	16,100			
Foundation support	1,600	1,600	-	1,600	1,600	-	1,600	1,600	1,600			
Other/Net Transfer	-	-	-	-	-	-	-	-	-			
Contingency/Net Transfers / Other	3,400	-	3,400	5,100	-	5,100	-	-	-			
Total expenses	\$ 302,600	\$ 302,700	\$ (100)	\$ 311,900	\$ 311,500	\$ 400	\$ 323,100	\$ 331,600	\$ 340,000			
General Fund Surplus or (Deficit)	-	(9,500)	(9,500)	-	(4,800)	(4,800)	\$ (13,300)	\$ (15,600)	\$ (17,500)			
as percent of total expenses		-3.1%			-1.5%		-4.1%	-4.7%	-5.1%			
Unidentified permanent cost savings (FY17)	-	-	-	-	-	-	(13,300)	(13,300)	(13,300)			
Unidentified permanent cost savings (FY18)	-	-	-	-	-	-	-	(2,300)	(2,300)			
Unidentified permanent cost savings (FY19)	-	-	-	-	-	-	-	-	(1,900)			
FY17 Assumptions												
Tuition increase of 3%: enrollment decline of 2%												
Investment Income to be budgeted at \$0												
State Appropriations increase by 2%												
Salaries up by 2%												
Health Care increase by 6%												
Financial Aid set at Board approved authorization												
Increased Utilities budget by \$100k												
SS&M increases by \$1M												

FY18 & FY19 Assumptions
 Tuition increase of 3%: enrollment decline of 1%
 State Appropriations increase by 2%
 Other Revenues increase by 3%
 Salaries increase by 2%
 Health Care Increases by 6%
 Financial Aid increases 3%
 Utilities increase by 5%
 SS&M increases by \$1M each year

Appendix B

2) Out-of-state differential per credit hour FY2016:

100-499	Mich.	\$296.25	Out-of-State	\$ 872.75	Diff.: \$576.50 (+195%)
500-699	Mich.	\$597.00	Out-of-State	\$1100.00	Diff.: \$503.00 (+ 84%)
700+	Mich.	\$695.15	Out-of-State	\$1250.50	Diff.: \$554.85 (+ 80%)

Recommendation:

It is recommended that EMU consider lowering out-of-state tuition differentials at both the undergraduate and graduate levels to reflect the dramatic reduction in the share of funds coming from state government. Final decision should be based on analysis of current number of students paying out-of-state tuition and potential increase in out-of-state students if differential is reduced. Consideration might be given to different out-of-state rates for domestic and foreign students.

3) Program Fees for 300 and 400 level courses:

Recommendation:

It is recommended that EMU consider rolling 300 and 400 level “program fees” into tuition as was done with these fees at the graduate level in the past year.

Appendix C

UBC Short-term Budget Committee 2016 Resolution on Establishing a Flat Rate or Block Tuition and Simplifying the Fee Structure

Whereas:

The University Budget Council has researched the potential benefits and impact of a change to block or “flat rate” tuition for full-time (12-18 credit hours) students at Eastern Michigan University and found the net effect is positive, both financially and in terms of improving the graduation rate at Eastern.

In setting a flat rate, Eastern will join many of our competitors and peers in the region that set their tuition in a similar fashion. Aligning ourselves with universities such as Western Michigan, Oakland, Toledo and Ball State allows for easier comparison of costs and benefits.

State support for public universities has shrunk to a low of 23 percent for Eastern (in 2015-16) from more than 70 percent in 1980-81. Tuition revenue has become an increasingly important source of income for the University.

Due in part to the increase in costs, students have taken fewer credit hours and increased their time to earn a degree, resulting in higher opportunity costs, more and larger student loans and lower graduation rates. With our increase in FTIAC enrollment, more students are taking more credit hours, and this move encourages students to continue to do so. Students who wish to attend EMU part-time, at a level less than 12 credits, will pay per credit hour, as they do now.

In addition, the committee suggests a parallel process of simplifying the fee structure to create a more streamlined and less complicated format that would offer more transparency to students and their families in determining true costs of an education at Eastern Michigan. To the greatest degree possible, these fees should be rolled into the overall tuition charge.

The committee recognizes that such a change in pricing will require the support and coordination with a variety of University offices, including IT, Student Billing Services, Financial Aid and Records and Registration. In addition, it’s important to carefully assess the impact of block tuition on students who simply cannot take more than 12 credits due to various constraints.

The goals of these two changes are to increase the graduation rate, reduce student loan debt, and increase clarity in the billing process and to increase revenue.

Recognizing that these changes will take time to plan, promote and implement, the recommendation includes the establishment of an internal oversight committee to develop the tuition and fee change, with a scheduled launch in Fall 2017.

RESOLUTION: Given the benefits and expected increase in revenue and the graduation rate that is correlated with this change, the UBC recommends setting a block tuition rate for the FY18 academic year along with a simplification and consolidation of the fees assessed students, rolling as many into the regular tuition charge as possible.

Appendix D

UBC Short-term Budget Committee Resolution on Tuition for 2016-2017

Whereas:

Eastern Michigan University has approved limited tuition increases in recent years, which range from 0% in 2010 to 7.8% in 2015, averaging only 3.7% over the past seven years.

Eastern Michigan University is routinely cited as a Best Value in public higher education.

The financial reserves of Eastern Michigan University are at a critical low point and threaten the creditability and financial stability of the institution.

To maintain our strong brand of affordability, while at the same time attending to increasing operational expenses, an increase is deemed reasonable and justifiable.

Yet, at this point in our history, and with a new president taking office this summer, it is important to continue to nurture relationships with the state as it relates to setting tuition. Thus, the committee recommends setting tuition at the cap ultimately specified in the Governor's budget, which remains under discussion in the state legislature.

RESOLUTION: Given the above history and the degree to which public perception is associated with a fiscally responsible public university, and particularly after the University significantly exceeded the tuition cap last year, the UBC recommends increasing tuition by no more than the cap ultimately provided for in Governor Snyder's FY17 budget. The UBC acknowledges that last year's increase was an unusual but highly necessary measure and that, given our current financial state, we continue to pursue other long-term sources of revenue while aggressively controlling expenses.