

Institution: Eastern Michigan University
Chief Executive Officer: Dr. James M. Smith, President
Date: 11/30/2018

Action: Financial Recovery Plan
Core Component: 5A
Area Focus: The institution needs to write a realistic and more aggressive Financial Recovery Plan as the initial plan did not provide the financial stability in terms of CFI. This must be submitted within one year – 12/3/2018 (or sooner).

This Report is the required interim report on Eastern Michigan University's (EMU) financial recovery plan requested by the Higher Learning Commission (HLC). Even though the Report is labeled as a recovery plan, EMU has taken many solid steps since 2012 to enhance its financial picture while continuing to improve academic quality and student success. Based on the financial results for FY18, EMU will be "above the zone" for the first time since FY11 with a CFI score of 1.18 when adjusted for the unrestricted cash (Net Assets) associated with the Parking concession agreement. This report will primarily be focused on demonstrating the major actions EMU has implemented in recent years to increase revenue sources and reduce costs to help improve its CFI score.

A Brief Review of Historical Context

In 2009, EMU borrowed \$90M to renovate its main science building after waiting nearly 10 years for a state capital outlay to support the project. That decision cut the Viability Ratio in half for the foreseeable future based on our level of reserves. With a large number of EMU's buildings built before 1970, those 50-year-old facilities desperately needed repairs. EMU has systematically, one-at-a-time, renovated its facilities by re-allocating tuition dollars and reserves to fund the renovations. When the State finally restarted its capital outlay process again, it limited the State contribution to \$30M and now required a 25% match from the University, placing a new burden on the University's finances. Over the last 20 years, the State has supported only two capital projects at EMU. To complete those projects, EMU had to provide \$20M in matching funds from tuition revenue, reserves and/or additional borrowing.

In 2010, EMU approved its "0% tuition – 0% room – 0% board" initiative for the FY11 year in response to the calls from the State for colleges to be affordable. The State promised to reward affordability but failed to do so due as the country entered into the Great Recession. Later that year, the State cut EMU's appropriation by \$11M – a 15% across-the-board reduction to all the State public universities regardless of affordability. EMU failed to adjust its budget to this reduction. In FY19, EMU has finally returned to the same level of state appropriation funding (in actual dollars, not adjusted) as it received in FY11. The accumulated loss of State appropriation between 2011 and 2018 is over \$60M had the appropriation remained at the same level before the reduction. That \$60M hole is evident in EMU financial data.

As a regional public university, EMU's enrollment is affected by many environmental factors in and around southeast Michigan, such as the strength of economy, high school graduates, and fierce competition in higher education market. EMU's student-credit-hour forecast model has been continuously improved and with reliable enrollment targets it has accurately predicted student credit hours. Now that student credit hours are over 70% of the University's operating revenue, this forecast has allowed the University to recognize, prepare for, and absorb declines in enrollment into its budget in a strategic manner without surprises.

After finally accepting the decline in enrollment and State support as ongoing, EMU has sought to strengthen its other sources of revenue by partnering with external vendors for the management of non-instructional activities and leverage their investment in capital projects to generate additional revenue (the Dining and Parking agreements). Similarly, the University has invested in new academic programs with partnerships from the community and external vendors (St. Joe's Hospital agreement for delivering the Physician's Assistant program, and the Academic Partnership agreement for recruiting students to select online programs).

Appendix B shows a few slides that were used in a recent all Administrative Professionals meeting on campus. Information included in the slides portrayed two primary challenges EMU has been facing since 2012—enrollment decline and loss of state appropriations. Without repeating all the contextual yet still valid narratives made in the 2015 recovery plan, this report will present the continuing strategies and specific actions EMU has implemented since the beginning of 2016 to stabilize and expand its financial capacity, and provide a brief outlook to the near future.

In its previous financial recovery plan (Appendix A) submitted to HLC in December 2015, EMU presented a thorough institutional- and state-level context that led to a low Composite Financial Indicator (CFI) as well as the actions EMU took up to that point (pp.5-8, Appendix A). A brief review of those actions indicates that since then EMU has continued and expanded its efforts in many of the strategic areas. Unfortunately, the University has encountered a protracted and steep enrollment decline, and due to this decline, coupled with lower state appropriation, EMU's CFI remained at a low level. With an array of actions taken in recent years, the CFI score has seen positive upswings since FY15.

EMU's Historical CFI Scores

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018*
CFI	1.47	0.32	0.63	0.71	(0.01)	0.05	0.51	1.18

*FY2018 is preliminary

The financial challenges highlighted by EMU's Financial Indictors being "in the zone" over the last six years boil down to EMU's slow reaction to the shift in State support for Higher Education in terms of annual appropriation and capital funding due to our desire to remain affordable and accessible, and the decline in population in Michigan and its surroundings, resulting in annual operating budget deficits and reductions in its reserves. EMU has taken the painful steps to right-size its budget so that the FY19 budget is balanced with no "to be determined" cuts and absorbs the forecast decrease in student credit hours. The new budget includes a true contingency for the first time in a decade to begin rebuilding reserves.

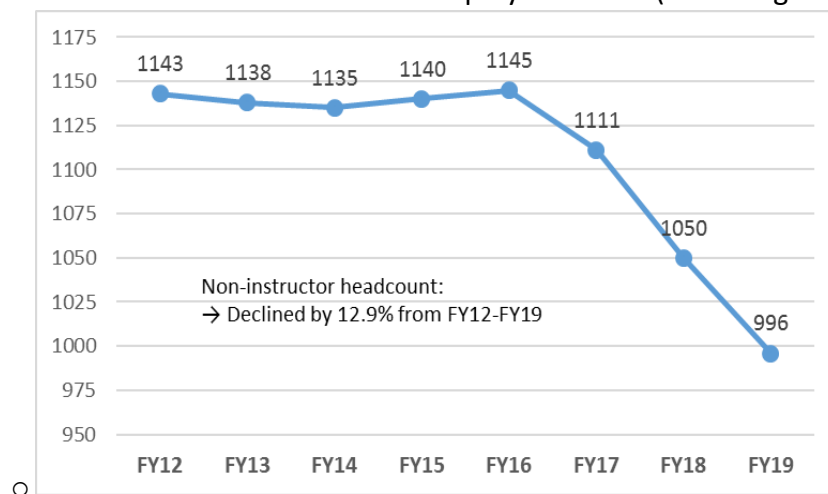
Strategies and Actions since January 2016

1. Cost-saving strategies

A. Workforce rightsizing and changes made to employee compensation and benefits

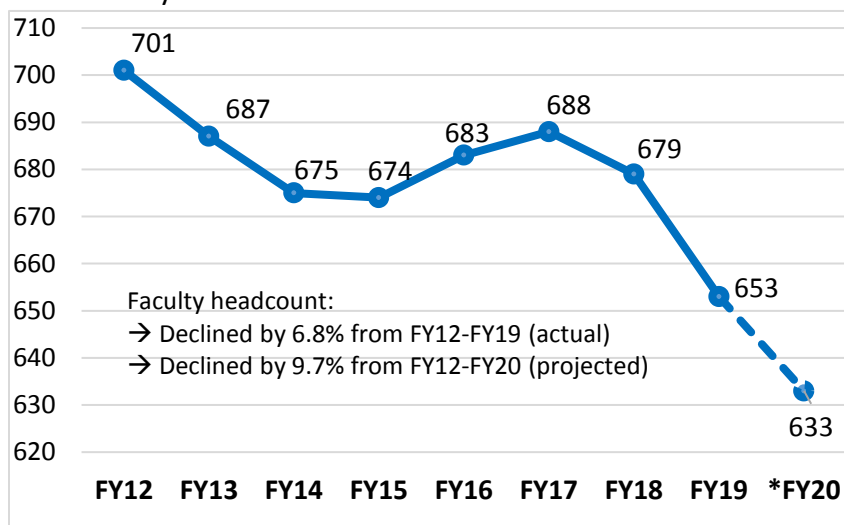
- From FY16 through FY19, EMU implemented continuous position reductions by attritions and layoffs. As a result, 175 FTE positions were eliminated, for a total savings of \$15 million in compensation and benefits over those three years. As a specific example, the staff voluntary early retirement incentive program implemented in 2017 resulted in a long-term annual saving of \$972,000. The figure below shows the change in staff headcount.

Total Non-Instructional Full-Time Employee Trends (excluding vacant positions)

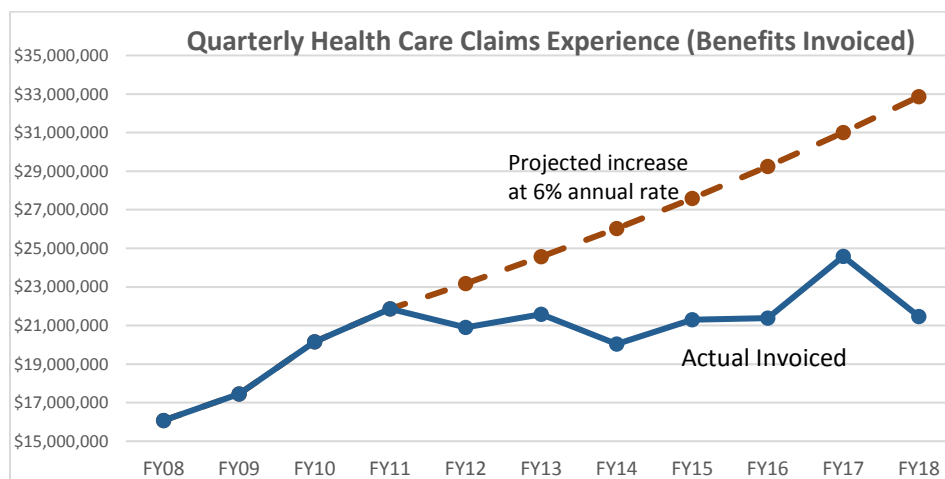


- By strategically hiring faculty in the College of Health and Human Services as faculty in the College of Education separated, EMU was able to re-allocate faculty lines from areas of declining enrollment to areas of growth. The figure below shows the changes in full-time faculty headcount. In FY2016, the new faculty contract included a Voluntary Phased Retirement process, which gives EMU a three-year window to examine the impact of a retirement. At the start of FY2019, there were 42 faculty members on Voluntary Phased Retirement, saving EMU \$3.3M in compensation (salary and benefits) in FY2019. These faculty (6% of the unit) will separate from the University in the next 3 years, in addition to other regular separations and retirements. It is noteworthy that the reduction of full-time faculty numbers coincides with the enrollment declines such that EMU's student-faculty ratio has purposely remained at 17:1 for the past several years.

EMU Faculty Headcount Trends



- EMU has eight (8) employee unions. The university uses contract negotiations as an opportunity to save costs while maintaining a competitive level of total compensation. Based on data provided by Human Resources, savings through contract negotiation for non-instructional unions will total additional savings up to \$1.24 million between FY18 and FY20.
- The growing cost of health care benefits for employees, reported nationally as at least 6%, has become a major financial burden for many employers. However, since FY2011, EMU has achieved a relatively flat cost in employee health care spending through many ways, including plan redesign, introduction of new low cost plans and HSAs, increasing employee cost sharing, and promoting healthy living through wellness programs. The realized savings between the projected increase and the actual invoiced amounts was nearly \$12 million in FY2018 (see chart below).



- As implemented on July 1, 2018, management staff who earn over \$80,000/year did not receive pay increases for FY19. This resulted in an annual savings of over \$400,000 in salary and benefits.
- EMU eliminated four athletics teams (Men's Swimming & Diving, Wrestling, Softball and Women's Tennis) in 2018 resulting in \$590,000 in compensation savings from the termination of coaches and staff.

B. Improvements on facility management

- One of the residence halls, Hill Hall, was closed in FY19, resulting in utility and staff savings of \$300,000.
- The summer closure of the College of Business building in 2018 resulted in \$300,000 savings. The courses were moved to main campus.
- In August 2018, the EMU-Livonia Center permanently closed. This results in an annual savings of \$500,000. The courses were moved to main campus.
- Beginning in FY2019, the estimated annual utility savings between the Energy Conservation Measures (ECM) and the new Co-Generation Unit is \$2.5 million.

C. Other cost-cutting actions

- The elimination of four sports programs after the completion of their seasons in 2018 resulted in a total annual saving of \$2.4 million from financial aid, equipment, and aforementioned coaching staff reductions.
- In addition to the savings from athletic team eliminations, the financial aid budget in the general fund in FY19 was reduced resulting in savings of \$1.4 million.
- An academic program review is currently underway as an opportunity to look into ways of more efficiently delivering small programs.

2. Revenue improving strategies

A. Improving student success and stabilizing enrollment trends

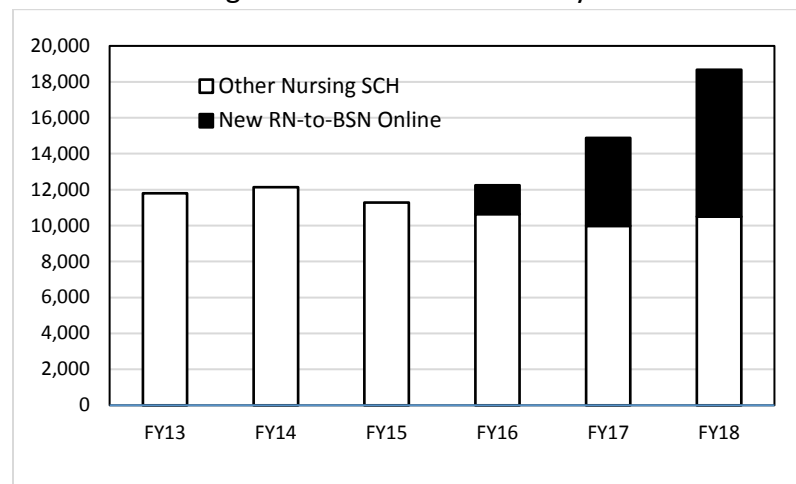
- EMU took solid steps by partnering with professional marketing firm—Academic Partnerships—to broaden the capacity of recruiting online students. This collaboration has resulted in the successful launch of multiple online programs, such as RN-to-BSN, Bachelor of General Studies (BGS), and Master of Educational Leadership programs. Several other online programs are in the development phase for launching in the near future.

The most successful example of this partnership is the online RN-to-BSN program. In late 2015, EMU moved its RN-to-BSN program online and shortly thereafter began partnering with Academic Partnerships to recruit students into online programs. The RN-to-BSN online program started with an initial cohort of 20 students in Fall 2015 and as of Winter 2018 has grown to over 600 students in the program. As a result, online course revenue has increased from \$1.7M in FY17 to \$3.3M in FY18 and is budgeted at \$4.7M in FY19. The launch of the online RN-to-BSN program has turned the School of Nursing from a net revenue loss to net gain due to the new student credit hours in the online program (see table and figure below).

School of Nursing Financial Analysis

Summary	FY15	FY16	FY17	FY18
Gross Revenue	\$3,775,746	\$4,602,934	\$5,628,814	\$6,957,008
Total Expenses	\$4,658,174	\$5,686,148	\$6,106,314	\$6,213,346
Net	-\$882,428	-\$1,083,215	-\$477,500	\$743,662

School of Nursing Student Credit Hour Analysis



- EMU is starting to see similar successes in the recruiting of students into the online Masters of Education Leadership program, and has just launched the online version of the Bachelors of General Studies program. Online delivery of other programs in all

the colleges are currently in discussion, including the Integrated Marketing and Communication program (College of Arts and Sciences and College of Business), the Masters in Business Administration (College of Business), the Masters of Science in Nursing (College of Health and Human Services), the Masters in Curriculum and Instruction (College of Education), and the Masters in Information Assurance/Cyber Defense (College of Technology).

- Over the course of the last two years, EMU has increased efforts to recruit international students. EMU launched its “You Are Welcome Here” campaign in 2016 to bring international students to EMU. Since 2017, President Smith, along with several college deans and recruitment staff, has visited Asia twice. The Computer Science Department has significantly increased its credit hour production due to the activation of its international agreements in China. In his Fall 2018 State of the University address, President Smith set a goal to double the enrollment of international students on campus.
- In recent years, EMU made strategic and concerted efforts to improve student success. The Provost’s office closely monitors the outcomes of those efforts. In 2013 EMU created a merit-based scholarship program to better financially support students, particularly Pell-eligible students, and recruit better-prepared students to EMU. A degree completion plan was initiated in 2014. EMU began investing in general and college-specific academic advisors and opened the Francine Parker Advising Center in the Student Center. In 2016, EMU participated in the Gateway to Completion program, a national initiative aimed at helping students successfully negotiate through gateway courses in general education programs. EMU also participates in the Student Success Academy offered by the Higher Learning Commission. As a result of those efforts, EMU has seen a measurable upswing in degree completion rates (see table below).

First Time Freshman 4, 5, & 6-Year Completion Rates (in %)

Cohort Starting Term	4-Year	5-Year	6-Year
Fall 2008	12.9	27.0	36.6
Fall 2009	13.1	30.9	40.1
Fall 2010	13.0	32.3	40.7
Fall 2011	14.1	31.7	40.4
Fall 2012	16.6	36.8	45.1
Fall 2013	19.1	38.9	
Fall 2014	19.9		

B. New revenues through external partnerships

- In Fall 2016, EMU's dining services began partnering with Chartwells. The partnership has resulted in an annual revenue improvement of more than \$2M (see table below). Additionally, through the partnership, Chartwells has invested \$7.2M in capital improvements to our campus dining facilities and is scheduled to invest an additional \$8M in the coming years. In the past, these capital investments were funded solely by the University.

Net Revenue Changes in Dining before and after Partnering with Chartwells

	Before Partnering			After Partnering		
	FY14	FY15	FY16	FY17	FY18	FY19
Net Results	\$ 2,689,038	\$ 2,588,394	\$ 3,962,794	\$ 6,781,039	\$ 5,064,458	\$ 6,392,636

- Parking Services began partnering with ParkEMU in Summer 2018. The initial portion of the \$55M payment from the vendor is reflected in EMU's FY18 financial statements. Additionally, ParkEMU is committing \$4.2 M of capital improvements over the next three years to upgrade University parking facilities. Again, in the past these improvements were funded solely by the University.
- An evaluation of our housing facilities is currently underway in Fall 2018. The external consultant is examining the current housing stock and will recommend opportunities to improve revenue in housing.
- EMU is partnering with area professional health service providers to provide broader health services to students while creating additional savings from staffing and facilities, as well as opportunities for students to train in the facility. Construction of the new facility is expected to break ground in Fall 2018.

C. Other sources of revenue

- When the State cut EMU's appropriation by \$11M in FY11, the State created a new set of performance metrics for allocating State appropriations. The metrics included the following categories: total critical skills degrees (defined as STEM, health fields and other areas), 6-year graduation rate, total degrees conferred, institutional expenses as a ratio of core expenses, research expenditures, and most recently added, number of Pell students served. The metrics are evaluated based on improving in these areas over a three-year period, or being above the median in public (university) peer groups identified using the Carnegie research designation, or being in the top 20% of these peer groups.

EMU has made strategic investments in all of these metrics.

- The investments in doctoral programs resulted in EMU becoming a R3 university in FY2016.

- EMU is already recognized in the scoring as in the “Top 20%” of its peers in total degrees produced and the investments in student success are increasing the number of students completing their degrees. In the 2018 scoring, EMU produced 4,610 degrees compared to the “Top 20%” amount of 4,571.
- Because of EMU’s commitment to being affordable and a place of opportunity, EMU already scores in the “Top 20%” of its peers in the number of Pell students served. In the 2018 scoring, EMU served 7,672 Pell students compared to the “Top 20%” count of 6,656 students.
- The new programs in Nursing (RN-to-BSN), Physician’s Assistant, Fermentation Science, Neuroscience, Mechanical Engineering, Electrical and Computer Engineering are geared toward moving EMU from being “above average” in critical degrees to “Top 20%” in the peer group. In the 2018 scoring, EMU produced 1,259 critical degrees heading towards the Top 20% count of 1,335.
- The positive outcome of student completion has resulted in a 6-year graduation rate in 2018 of 45.1%. In the 2018 scoring, EMU’s rate was 40.7% and the “above average” rate was 45.7%.
- The University’s effort on reducing institutional costs and improving institutional effectiveness has EMU moving towards “Top 20%” status in “Institutional Expenses as a ratio of Core Expenses”. In the 2018 scoring, EMU was measured at 10.8% and the “Top 20%” measure was 10.7% (keeping in mind that in this metric, less is better).

Overall these improvements in EMU’s performance metrics helped EMU secure an additional \$1.9 million in its FY19 state appropriation funding. These additional funds are then permanently added to base-funding.

- EMU received a state capital appropriation for the renovation Strong Hall (built in 1956), funded in 2017 by \$30M from the State and \$10M from EMU. The renovated facility is on-budget and expected to re-open in January 2019. EMU requested and was ranked 3rd in the State for the renovation of Sill Hill (built in 1965) as part of the FY19 capital outlay request. The State has not yet taken action on the submittals. The project requests \$30M from the State and \$10M from EMU. Both of these projects will seek to be certified by the U.S. Green Building Council (LEED certification) and will result in sizable annual savings on energy use given the age of the systems in those 50+ year-old buildings.
- The University Capital Campaign is currently under preparation. The goal of the campaign is tentatively set at \$100 million and will be used primarily for student scholarships and hence reduce financial aid dependency on the General fund.

- The Athletic Department has been charged by the President and the Board of Regents to improve its external revenue to reach the same level of support as the average MAC institution. The Athletic Department is seeking to improve paid attendance, scheduling games with significant guarantee moneys, and engaging alumni in fund-raising.

Summary of Financial Status

Since 2011, EMU has encountered three primary obstacles that negatively impacted the University's financial picture: a 15% reduction (-\$11M) of its State appropriation in 2011 that has just finally been filled in 2019; strategic investments in buildings, facilities, and campus safety completed by borrowing or using reserves; and a continued enrollment decline.

Enrollment Trends among Michigan Public Universities

Institution	2011	2017	% Change
CMU	27,886	23,335	-16%
EMU	23,441	20,313	-13%
FSU	14,560	13,798	-5%
GVSU	24,662	25,049	2%
LSSU	2,749	2,138	-22%
MTU	7,034	7,319	4%
NMU	9,405	7,612	-19%
OU	18,900	19,333	2%
SVSU	10,790	8,662	-20%
UM-D	8,688	9,339	7%
UM-F	8,262	7,836	-5%
WSU	29,786	27,089	-9%
WMU	25,086	22,894	-9%
Total	211,249	194,717	-8%
UMAA	42,716	46,002	8%
MSU	47,954	50,019	4%
State	301,919	290,738	-4%

The enrollment and financial challenges EMU face are not atypical as many other public universities are fighting a similar battle across the nation. Decline in student enrollment among public universities in Michigan is especially salient (see table above) due to the decline of population and high school graduates. The State's enrollment decline is even more significant if we exclude the two flagship institutions of the state—University of Michigan (UM-AA) and Michigan State University (MSU).

Nevertheless, EMU continues to invest in improving student success, academic programming, program quality, facilities, technology, campus safety, and streamlining services. The University has made extraordinary efforts in controlling its overall expenses. Between FY11 through FY18, the University's operating expenses have increased annually by 0.6% and more recently since FY2016 operating expenses have decreased by 2.1% or \$7 million. (See table below).

EMU Total Operating Expenses

Fiscal Year	Total Operating Expenses	Change from Previous Year
FY10/11	\$332.7 M	
FY11/12	\$332.7 M	0.0%
FY12/13	\$331.2 M	-0.5%
FY13/14	\$339.1 M	2.4%
FY14/15	\$344.3 M	1.5%
FY15/16	\$352.9 M	2.5%
FY16/17	\$353.3 M	0.1%
FY17/18	\$345.9 M	-2.1%
	Average	0.6%

Conclusion

Based upon the FY18 financial results and after considering the increase in unrestricted cash received in the Parking agreement, EMU is "above the zone" with a CFI score of 1.18, which is a delay of one year as described in our 2015 recovery plan (Appendix A, bullet #1, p.9). As a result of the long-term positive financial impacts of the new revenue-generating efforts and the attention to expense and cost-savings described above, EMU expects to continue to be "above the zone" for the foreseeable future.

APPENDICES

Appendix A: EMU 2015 Financial Recovery Plan Submitted to HLC

The purpose of this report is to provide the financial information and additional background of the University's strategic initiatives to re-establish the institution's financial health to the Higher Learning Commission (HLC) to support their Financial Panel review.

In September 2013, Eastern Michigan University held a conference call with Dr. Sunil Ahuja, Vice President for Accreditation Relations and Higher Learning Commission Staff Liaison for Eastern Michigan University, to proactively discuss the issue regarding the University's financial condition and institutional context, and at that time obtained the understanding that if its financial condition continued or declined that the University would be requested to provide additional information as part of a Financial Panel review. In their November 9, 2015 letter to the University, the HLC discussed their review of the University's financial ratios and identified the University for a Financial Panel review, as the University's Composite Financial Indicator (CFI) was "In the Zone" for the 2013 & 2014 calendar years. As part of the Financial Panel review, the University is required to provide financial information and a summary of its strategic directives to re-establish the financial health of the University.

PRIMARY FACTORS IMPACTING FINANCIAL RATIOS

Table 1 shows the Composite Financial Indicator and its ratios from 2007 through 2014.

Eastern Michigan University <i>Financial Ratio History 2007-2014 (Table 1)</i>								
	2007	2008	2009	2010	2011	2012	2013	2014
Primary Reserve Ratio	0.293	0.291	0.247	0.209	0.183	0.143	0.155	0.156
Net Operating Revenue Ratio	(0.024)	0.025	0.023	0.021	0.026	(0.018)	(0.008)	(0.011)
Return on Net Assets Ratio	(0.004)	0.024	(0.002)	0.038	0.055	(0.011)	0.009	0.019
Viability Ratio	0.601	0.625	0.328	0.308	0.277	0.220	0.227	0.234
Composite Financial Indicator	1.10	1.90	1.20	1.30	1.50	0.30	0.60	0.70

Historically, EMU had maintained its CFI in the "Above the Zone level." In 2012, Eastern Michigan University's CFI sharply declined from 1.50 to 0.30 and has been slow to recover. The decline was mainly driven by the Net Operating Revenue and Return on Net Assets ratios becoming negative, coupled with the Primary Reserve Ratio and the Viability Ratio eroding to their lowest levels during this time period in 2012. Below we describe factors resulting in the decline.

Factor 1: State Appropriation

As a public regional university, the main sources of revenues used to fund operations are primarily tuition revenue and state appropriations. The greatest impact to Eastern Michigan University's financial health has been the decreased level of state appropriations received beginning in 2007 and most significantly in 2012, as seen below in Table 2.

Eastern Michigan University & Foundation
State Appropriations Received 2007-2014 (in millions) (Table 2)

	2007	2008	2009	2010	2011	2012	2013	2014
State Appropriations	\$ 69.2	\$ 84.9	\$ 78.6	\$ 76.0	\$ 76.0	\$ 64.6	\$ 66.5	\$ 67.6
YoY Change in State Appropriations		\$ 15.7	\$ (6.3)	\$ (2.6)	\$ 0.1	\$ (11.4)	\$ 1.9	\$ 1.1
Net Surplus (Deficit) - Note 1	\$ (6.7)	\$ 1.7	\$ (7.7)	\$ 9.3	\$ 9.1	\$ (10.6)	\$ 2.5	\$ 4.4

Note 1 - Net Surplus (Deficit) adjusted for (1) annual capital appropriations & gifts, (2) 2011 \$3.4m loss on write-off of library subscriptions and (3) 2009-2012 gain/loss on derivative valuations of (2009) \$8.5m loss, (2010) \$7.1m loss, (2011) \$6.7m gain, and (2012) \$30.8m loss.

The sudden and large changes in the state appropriations are directly responsible for operating deficits in 2007, 2009 and 2012. It is important to note the State's financial year begins in October while the University's financial year begins 3 months earlier in July so when the State budget is not approved until October (and State shutdowns are possible) the University fiscal year is already in its second fiscal quarter. In 2007 the final installment of the State Appropriation was unexpectedly deferred until the next fiscal year resulting in the operating loss in 2007. When the deferred payment was moved into 2008, there was an expectation that the higher level of appropriation would remain going forward. Unfortunately, as the economy continued to decline, the appropriation was reduced back to the previous level in 2009 and was cut again in 2010. In 2012 the State Appropriation was significantly reduced by \$11.4 million, a reduction of approximately 15% from 2011. Since 2012, modest increases in the appropriation have occurred but in 2016 the State Appropriation is nearly \$18M less than what it was in 2008.

The operating deficits in 2007, 2009, and 2012 resulted in the Net Operating Revenue and Return on Net Assets ratios becoming negative. As well, since these deficits were covered by the University's reserves, the Primary Reserve Ratio was eroded to its lowest level in 2012.

Factor 2: Introduction of state-mandated Tuition Restraints

Eastern Michigan University has always prided itself on being accessible and affordable. As the United States economy progressed into the Great Recession, the University implemented a strategic initiative in 2010 called the "Zero-Zero-Zero campaign". This campaign held tuition, room rates and board rates flat from the 2009 rates. As well, to reduce the impact on students during the recession, the University increased its financial aid packages. It was believed that by implementing this initiative the University would offset the lower net revenue with increased enrollment and credit hours as students and their families would view the University as a viable financially option when compared to its competitors.

In 2011, the State introduced a tuition cap with the appropriation. Believing the State would reward universities with additional increases in the State Appropriation for restraining their tuition increases, Eastern Michigan University chose to continue with its affordability initiative and only increased tuition by 3.65%, room rates by an average of 2.58% and board rates by 2.15%. These levels were far below its competitors and state tuition cap of 7.1%. As part of the initiative, financial aid was increased.

As part of the 2012 State Appropriation, the State of Michigan not only reduced the appropriation by 15% but carved a portion of the remaining appropriation out and introduced performance funding. Universities would not receive performance funding dollars if tuition was increased above the state

mandated tuition cap. As a result, the University increased tuition at 3.65%, 3.95%, 3.75% and 3.2% in 2012, 2013, 2014 and 2015, respectively, slightly below the state caps.

The caps on tuition increases mandated by the state resulted in the University not being able to raise tuition rates to quickly rectify the University's financial position following the 15% decrease in the appropriation. The lingering effects of this 15% cut in the State Appropriation and the lower tuition increases is seen in the slow recovery of the all the ratios used in the CFI beginning in 2013.

Factor 3: Flat Enrollment

While the University did experience an enrollment increase of 645 students (2.8%) in 2010 during the "Zero-Zero-Zero campaign", the increased enrollment did not meet the anticipated results, generating less net tuition revenue than forecasted. As shown in Table 3 below, since 2012, undergraduate level enrollment and credit hours have remained relatively flat as record freshman classes have offset increases in the number of students graduating.

Eastern Michigan University								
<i>Student Enrollment & Credit Hours 2007-2014 (Table 3)</i>								
	2007	2008	2009	2010	2011	2012	2013	2014
Student Enrollment - Undergraduate	17,808	17,213	17,762	18,529	18,569	18,914	19,084	18,208
Student Enrollment - Graduate	4,830	4,713	5,096	4,974	4,772	4,588	4,233	4,053
Total Enrollment	22,638	21,926	22,858	23,503	23,341	23,502	23,317	22,261
Credit Hours - Undergraduate	461,925	450,680	469,062	480,283	480,283	474,439	476,128	474,281
Credit Hours - Graduate	62,754	62,468	66,033	66,040	66,040	64,344	61,629	58,503
Total Credit Hours	524,679	513,148	535,095	546,323	546,323	538,783	537,757	532,784

However, as all of the above was occurring, the University also experienced a significant decline in graduate level enrollment primarily due to the State changing requirements for teacher certification (K-12 teachers are no longer required to seek graduate training in Michigan). The decrease in graduate level enrollment and credit hours has further offset the effects of the increased tuition rate initiatives.

Given the social and economic contexts, some overall enrollment decline was anticipated but the decline in some areas were more drastic. For example, with the change in the Federal financial aid policy regarding Pell Grants (nearly half our students receive Pell Grants), enrollment in summer terms declined drastically and beyond our anticipation. From summer 2010 to summer 2015, the total student credit hours in the summer sessions declined from 71,715 to 47,571.

Factor 4: Strategic Investment on Capital Projects

Between 1998 and 2007, the University did not receive funding for a single capital project to renovate its aging academic buildings. The condition of the science buildings was becoming a recruiting disadvantage at a time when interest in STEM was growing. In January 2007, EMU's Board of Regents approved self-funding the \$90 million renovation and new construction project of the Mark Jefferson Science Complex. To self-fund the Mark Jefferson project, the University utilized public debt offerings which had a significant

negative impact to the University's financial ratios and CFI scoring. This additional debt reduced the Viability Ratio by more than 50% in 2009. The University proceeded with the project in based in part on the assumption that the University would continue to receive consistent state appropriation funding.

It was also believed self-funding the project would be well-received at the State level and result in additional capital funding. This was realized in 2010 when the State approved \$40M in renovations to the Pray-Harold building, the largest classroom building on campus and home to most of the programs in the College of Arts and Sciences. As the State of Michigan requires a 25% match on capital appropriations, the University borrowed an additional \$10M to proceed with the Pray-Harold project, further weakening the Viability Ratio.

Unfortunately since 2010, none of the Michigan Public Universities have received a capital outlay from the State. Again, in 2014 the University made the strategic decision to spend over \$10M from reserves to renovate the Rackham Building in order to create teaching and learning spaces for the new Physician's Assistant program as well as other growing programs in the College of Health and Human Services. This caused the Primary Reserve Ratio to become flat in 2014 after beginning to recover in 2013.

Eastern Michigan University <i>Capital Asset Spend 2007-2014 (in millions) (Table 4)</i>								
	2007	2008	2009	2010	2011	2012	2013	2014
Capital Asset Spend	\$ 25.6	\$ 10.8	\$ 26.8	\$ 69.0	\$ 73.5	\$ 40.3	\$ 20.8	\$ 14.6

Factor 5: Significant Investment on Campus Safety

From December 2012 to October 2013, two high-profile EMU student murders occurred in nearby off-campus apartments. The perception that the campus was unsafe had the potential to have a significant impact on enrollment. As a result, EMU made a substantial investment to campus safety from its general operating funds. The University hired a total of ten additional police officers and the necessary equipment for those officers in early 2014. The University police force is now larger than the police force for the City of Ypsilanti.

Factor 6. Variation in Investment Returns

Eastern Michigan University has experienced varying investment income returns from 2007-2014 which has impacted the University's reserves and financial ratios. Poor performance of the endowment has resulting in little growth. The operating budget of the University was dependent on investment incoming generating \$3M per year. Unfortunately the largest drop in investment income in 2009 coincided with the largest drop in state appropriations.

Eastern Michigan University <i>Investment Income 2007-2014 (In millions) (Table 5)</i>								
	2007	2008	2009	2010	2011	2012	2013	2014
Investment Income	\$ 6.1	\$ 5.5	\$ 6.3	\$ 6.2	\$ 7.5	\$ 3.9	\$ 5.1	\$ 5.4

STRATEGIES TO RE-ESTABLISH FINANCIAL HEALTH AS MEASURED BY THE CFI

Strategy 1: Implement Multiple Strategies to Increase Enrollment

- ***Making greater effort on student recruitment.*** As a regional public university, Eastern Michigan University relies heavily upon the State of Michigan population for its enrollment. The decline in the number of Michigan high school graduates had a negative impact to the University's enrollment during the recession and as a result, its financial position. As a result of the economic downturn experienced in the State of Michigan during the Great Recession, the state experienced a decrease in population from 2007-2013 of approximately 106,000 individuals⁽¹⁾. Specifically Oakland, Washtenaw and Wayne counties experienced most of the decrease with a reduction of approximately 85,000 individuals⁽¹⁾ during this time. Due to the University's location within the state, the University obtains nearly half of its enrollment from these counties. Per the 2012 Western Interstate Commission for Higher Education (WICHE) high school graduate forecast⁽²⁾ the State of Michigan's high school graduate population was projected to peak in 2009-2010 at approximately 123,000 students, and see declines to approximately 105,000 students as of 2013-14.

With this outlook on the horizon, the University focused on enrollment of FTIAC students as FTIAC students not only take the most classes per student but also fill the resident halls and dining commons. In recruiting record FTIAC classes in 2013 and 2015 and near record classes in 2011, 2012, and 2014, these efforts are in stark contrast to the decrease in state population and show the great success of our efforts. In addition to increasing the number of students, the quality of the students has also increased. The incoming freshmen continue to have the highest GPA and ACT scores of any class before it. The large classes are expected to help minimize the loss of credit hours attributed to the reduction in transfer and graduate students. As these students matriculate, it is expected they will positively impact graduate enrollment. The increases in freshman enrollment have been primarily driven by program investment in areas where high demand jobs exist (e.g., Health and Human Services).

- ***Launching new and high-demanding academic programs.*** Eastern Michigan University has identified a variety of strategic growth opportunities in the Health & Human Services College, as careers stemming from this college are in high-demand. A few in particular are the Physician's Assistant program, which was launched in the Fall of 2013 and its cohorts have expanded from 20 to 30 to 40, and the successful launch of the online courses for the Bachelors of Science in Nursing program. Eastern Michigan University has invested in further developing the buildings and programs associated with this College, for example the fall 2015 completion of Rackham Hall. The University is exploring opportunities to include more online courses while its Deans are building networks with area community colleges and international sister institutions to drive student recruitment.

⁽¹⁾ State of Michigan Department of Technology, Management and Budget Center for Shared Solutions (2011, September and 2014, March) *Estimated Population of Michigan Counties: 2000-2010 (intercensal)* and *Estimated Population By County: 2010-2013*. Retrieved from http://www.michigan.gov/cgi/0,4548,7-158-54534_51713_51716---,00.html

⁽²⁾ Western Interstate Commission For Higher Education (2013, January) *Knocking at the College Door*. Retrieved from <http://www.wiche.edu/knocking-8th>

- **Redirecting resources to targeted growth areas.** Eastern Michigan University's college budgets are now flexible and determined by student credit hour demand. As a college increases the number of credit hours, it receives a higher budget, which allows the college to invest further in their programs and infrastructure. This budget process provides Eastern Michigan University the flexibility to allocate funds to drive strategic growth across the University's colleges.

Strategy 2: Implement Campus-Wide Plan to Improve Student Success

Beginning in 2013, the University implemented its Degree Completion and Retention (DCR) Plan. This plan was established in order to increase the level of student educational success while promoting gains in retention rates of First Time in Any College (FTIAC) students at the University. The plan is comprised of 7 different factors which focus on providing proactive mentoring to first year students for their success in their transition to college life, evaluating current enrollment policies, evaluating the effectiveness of the financial aid policies, providing proactive and effective academic advising to promote timely student graduation, assessing the University's structure and delivery practices of the curriculum to support timely graduation & career preparedness, identify and build policies and processes to better serve students of color to promote graduation, and developing financial and mentoring support services for single parent students. This comprehensive plan is focused on identifying the challenges students face as they matriculate to, attend and graduate from college, and providing them the support services to effectively mitigate these challenges. Subsequently, the University receives a financial benefit from the investment in the DCR Plan, as our students will remain on campus and attending classes, resulting in greater revenues. Since the implementation of the DCR Plan in 2013, the University has experienced positive results as the retention rates for FTIAC students increased by 2.14% between the fall 2013 class (72.51%) and the fall 2014 class of (74.65%). The DCR Plan is included as an exhibit to this report for the HLC to review.

Strategy 3: Take Comprehensive Actions to Increase Revenue

- **Tuition rate adjustment.** For 2015-16, Eastern Michigan University choose to increase tuition more than the state-mandated caps and forego the performance funding. This strategic decision was made based on the financial needs of the University and the small (\$1.5M) in performance funding the University was eligible to receive. Tuition was increased 7.8%. Room and board rates were increased by 5%. These increases are greater than the average annual increase over the past 4 years, as seen in

Eastern Michigan University				
Room & Board and Tuition Rate Increases (Table 6)				
	Res. Halls	Apartments	Board	Tuition
FY 16 Increase	4.00%	5.00%	5.00%	7.85%
FY 15 Increase	4.00%	4.00%	4.00%	3.20%
FY 14 Increase	3.75%	1.55%	3.75%	3.75%
FY 13 Increase	4.95%	4.95%	4.95%	3.95%
FY 12 Increase	2.15%	3.00%	2.15%	3.65%
FY 11 Increase	0.00%	0.00%	0.00%	0.00%

Table 6.

Holding enrollment and credit hours constant, Eastern Michigan University estimates the FY 2016 net impact of the tuition rate increase after considering offsetting increases in financial aid packages to be \$9.9 million, as seen in Table 7 below. The additional revenue obtained from the tuition increase will have a significant impact to the University's financial position.

Eastern Michigan University <i>Net Financial Impact of Tuition and Fin. Aid Increases</i> <i>FY 2016 (Table 7)</i>		
2015 Tuition Revenues	\$	216.2
2016 Tuition Rate Increase		7.85%
Est. 2016 Tuition Revenue Increase(*)	\$	17.0
Est. 2016 Financial Aid Exp. Increase	\$	(7.1)
Est. 2016 Net Tuition Increase	\$	9.9
(*) - Assuming enrollment and credit hours remain constant		

- **Build Additional Reserves.** Eastern Michigan University is pursuing solutions to build additional reserve levels to improve the financial health of the institution, and specifically the Primary Reserve Ratio and the Viability Ratio in the CFI. These solutions include evaluating under-utilized assets and assessment of workflow processes to identify additional efficiencies. Eastern Michigan University is performing a detailed evaluation of the auxiliary functions to identify potential cost savings and additional revenue streams. The additional revenue and cost reductions from these actions will drive significant improvements to the University's financial health.

Looking forward to the FY 2016 financial performance, Eastern Michigan University has received a \$14.3 million reimbursement from the State of Michigan regarding the University being overcharged for the State of Michigan Public School Employee Retirement System (MPSERS) pension plans for decades. This reimbursement will have a positive impact to the University's Primary Reserve and Viability ratios, and subsequently the CFI, as the funds have increased our reserves.

Strategy 4: Develop and Implement Multiple Cost Reduction Measures

- **Workforce rightsizing.** During 2011-2012, Eastern Michigan University utilized employee layoffs in order to compensate for the reduction in state appropriations. Since this time the University has implemented a rigorous position control initiative, which critically assesses the need to replace vacant positions upon employee resignations. This initiative has resulted in the University identifying efficiencies and better utilizing the remaining employees, which has helped the University to maintain relatively flat employee salary expenses since 2012, as seen below. The average salary expense increase from 2008-2011 was 4%. By reducing the level of annual salary expense increases from 2012-2014, as shown in Table 8, the University has saved over \$41 million. As the University continues to

re-establish its financial health, restraining increases in university salary expenses will be a continued focus.

Eastern Michigan University <i>Employee Salary and Wage Expense Increases / Year - 2011-2014 (Table 8)</i>				
	2011	2012	2013	2014
Annual Salary Increase / Decrease	4.9%	-0.9%	0.1%	1.6%

- **Lowering administrative costs.** The relative flatness of the salary expenses has also benefited the University's revenues. One of the criteria that the State of Michigan utilizes for its performance measures is the change in administrative costs. The University has seen a decrease in administrative costs over the years which has helped lead to the slight increase in state appropriations received during 2013 & 2014.
- **Implementing a phased retirement plan.** Eastern Michigan University has also implemented a phased retirement plan for faculty members where during their last few years of employment, they can elect to work a part-time schedule and receive prorated compensation. This initiative promotes the opportunity for the employee to obtain an earlier part-time retirement, while also providing the University savings in employee salary expenses.
- **Lowering costs on employee benefits.** On an annual basis, the University reviews the employee benefit plans for potential cost savings and efficiencies. In 2006, 2010, and 2012, Eastern Michigan University made significant changes to its health care plans for employees, requiring employees contribute to their health care costs by the use of a co-pay and deductible and monthly premiums. These change moved the University from a position where its employees contributed about 5% towards their health care costs to the current day where employees contribute approximately 20%. The change reduced the University's financial responsibility for medical professional visits and provided it a financial benefit.

In 2015 and 2016 the University made significant changes to its employees benefit and retirement plans which will help to mitigate higher than expected inflationary increases to employee benefit expenses. One change includes the elimination of the employee's spouse on the health plan, assuming the spouse has the availability of other healthcare coverage through their own employer. This change will affect approximately half of the University's employees starting in January 2017. Additionally, starting in 2015, the University has implemented a new retirement program that requires some employees to contribute to their 403(b) retirement plan prior to the University contributing the maximum amount per the matching guidelines, whereas before the University contributed the maximum matching funds regardless of the employee's contributions. The extent of any savings to the University is dependent on the employee's willingness to now contribute the full amount to the 403(b) plan per the matching guidelines. The University will be looking to get all employees covered under the new matching guidelines over the upcoming years as union contracts expire and are re-negotiated.

SUMMARY

- The financial health of Eastern Michigan University is strong and improving. The current forecast is its CFI will be “Above the Zone level” in 2017.
- The University has absorbed the nearly \$20M decrease in State Appropriation. The State Appropriation now is only 23% of the University’s revenue.
- Launch of new academic programs, record FTIAC classes and a new retention program have stabilized enrollment and net tuition revenue, as well as increased revenues from housing and dining.
- The University will reduce its dependency on investment income in its general operating fund to \$0 in 2016-17.
- The general operating budget has increased its contingency level from \$0 to nearly \$6M in 2016.
- The University has made significant changes to its staffing and cost structure to control its largest cost – employee salaries and benefits.
- The University has implemented flexible budgeting practices to reallocate budget to new and growing programs.

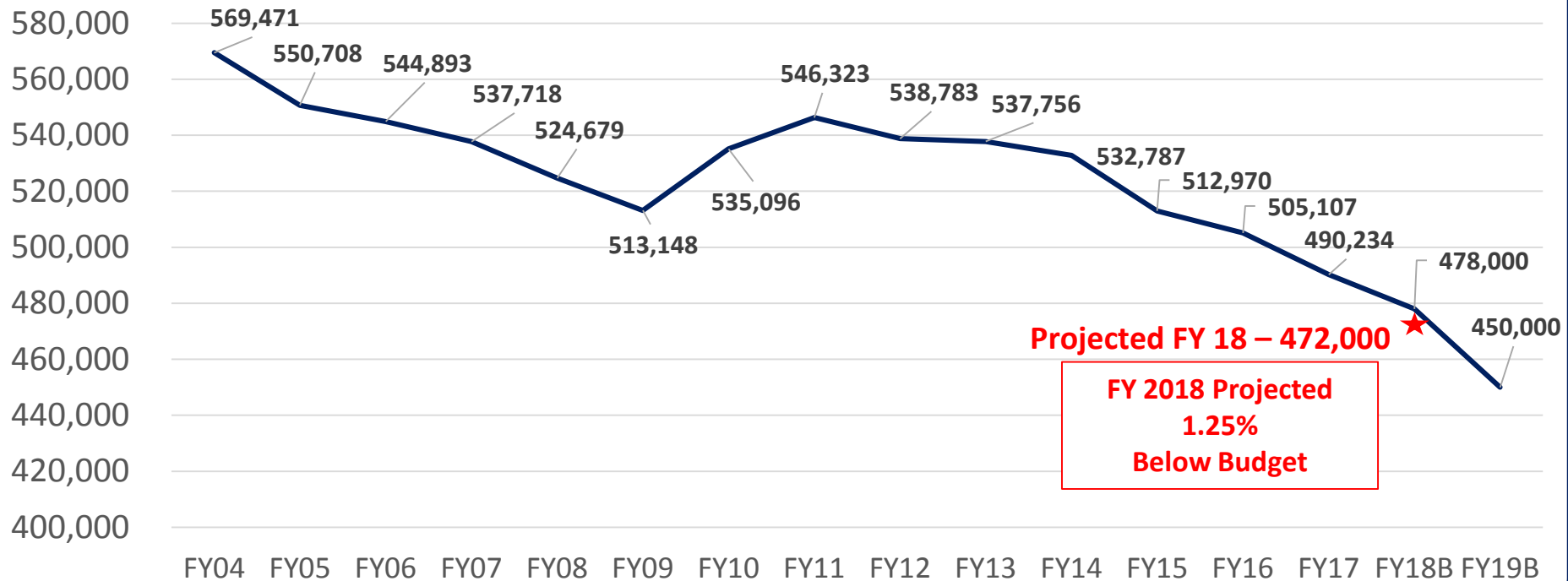


Appendix B. Enrollment, State Appropriation, and Financial Trends Data Presented during All Administrative Leadership Meeting

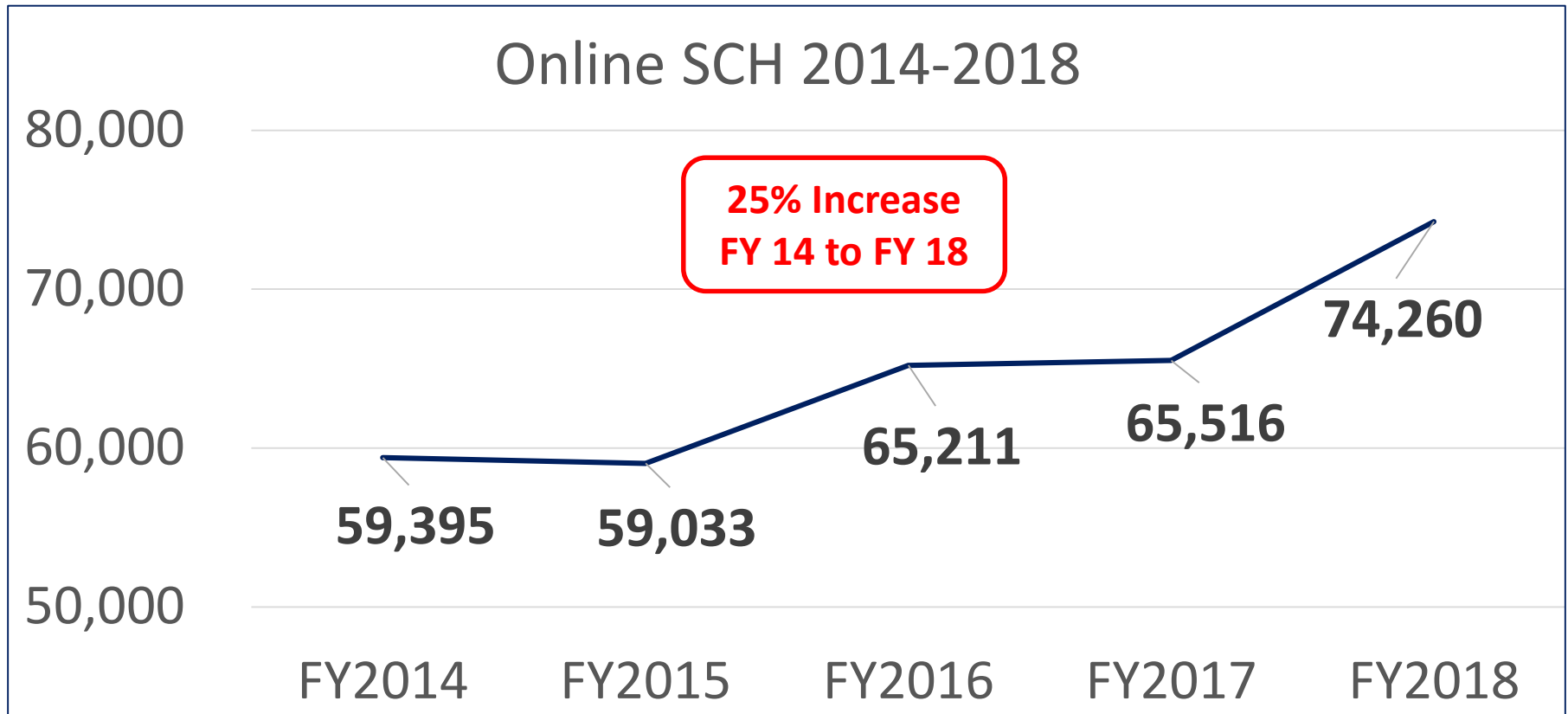
Tuesday, July 10, 2018

Student Credit Hours

Student Credit Hours Per Academic Year

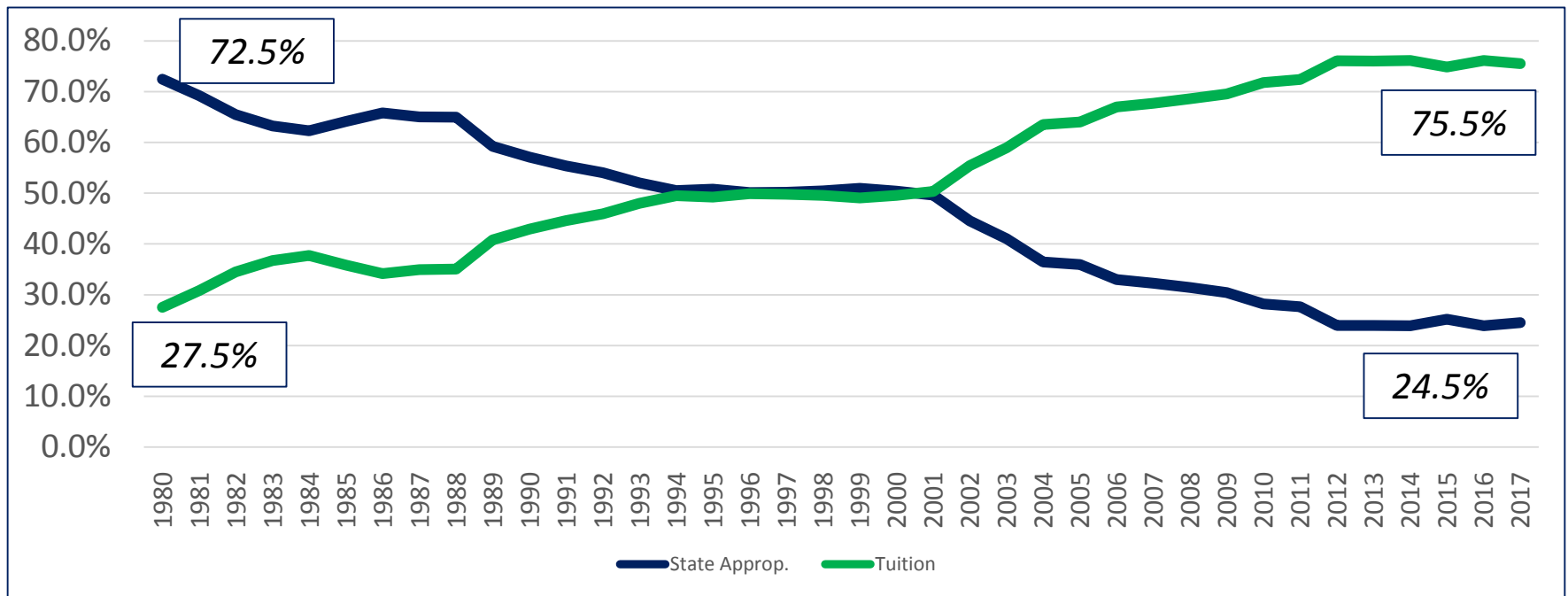


Online Student Credit Hours



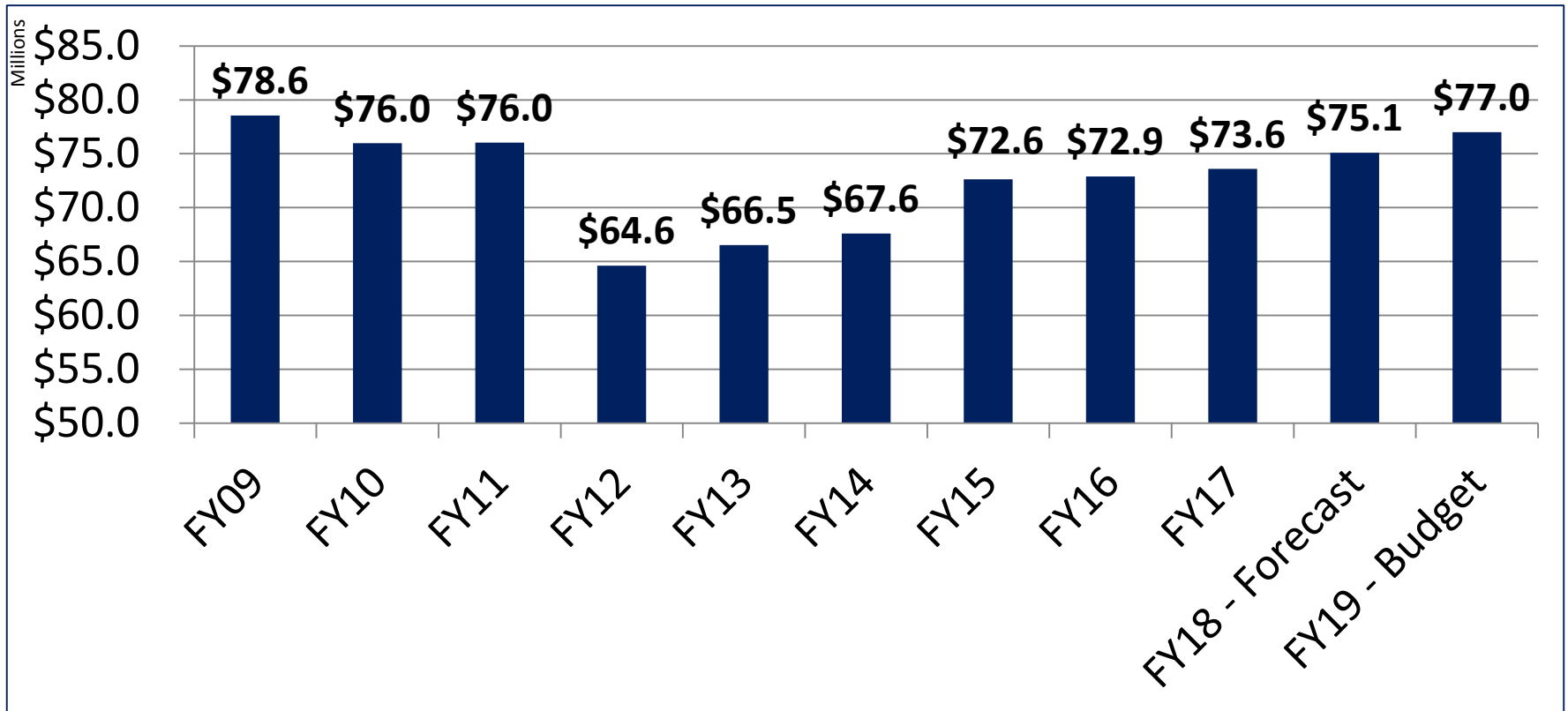
FY 18 Includes: Fall & Winter Actual + Summer Beg. Of Term

State Appropriations vs. Tuition & Fees



General Fund Revenue Challenges

State Appropriations



Lost appropriations revenues since 2009 levels - \$64m