

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 2
DATE: Oct. 21, 2005

RECOMMENDATION

FY 2007 APPROPRIATION REQUEST

ACTION REQUESTED

It is recommended that the Board of Regents approve the FY 2007 Appropriation Request.

STAFF SUMMARY

This request establishes the initial resource planning parameters for FY 2007. Its purpose is to identify the fiscal needs of the University for the Office of the State Budget. The University has identified its FY 2007 funding need of \$7.6 million to cover basic cost increases, in addition to identifying the need to establish a minimum appropriation increase and increase in tuition and fees.

FISCAL IMPLICATIONS

This establishes the initial resource planning parameters for FY 2007. It is to be used to preliminarily identify the fiscal needs of the University for the Office of the State Budget. It does not preempt the Board of Regents' approval of the operating budget that is under development.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date

EASTERN MICHIGAN UNIVERSITY FY2007 APPROPRIATION REQUEST EXECUTIVE SUMMARY

Eastern Michigan University is pleased to present this request for appropriations for FY2007.

Introduction

Eastern Michigan University is the sixth largest public university in Michigan with a comprehensive curriculum and a diverse student body. Recently, EMU was named one of the 367 most interesting schools by Kaplan's *College Resource Guide*, a part of *Newsweek Magazine's* "America's Hottest Colleges 2006." EMU also was recognized as a "Best Midwestern College" by *The Princeton Review* for the third year in a row. For the second consecutive year, EMU has been cited for its growing number of African-American students who earn undergraduate degrees by *Black Issues in Higher Education*.

Over its 156-year history, EMU has enjoyed a national reputation in the field of professional education. It continues its tradition of being at the top in the nation in total productivity of educational personnel (initial teachers, teachers achieving an advanced credential, administrators and counselors). EMU graduates of the College of Education continue to earn state and national recognition as teachers, principals and counselors.

The College of Business enjoys elite accreditation from The Association to Advance Collegiate Schools of Business and was recognized for the second year in a row as one of the "Best 237 Business Schools" by *The Princeton Review*. The college has a strong community outreach component through its Small Business Development Center, U.S. Export Assistance Center, Center for Entrepreneurship and a Business Research Center operated in partnership with the Michigan Small Business and Technology Development Center and Washtenaw Community College.

The College of Health and Human Services is known for its applied health and nursing education programs and its nationally-ranked occupational therapy program. The college currently is working to expand its nursing education program to meet a state and national need for additional nurses. The college also has developed a strong graduate program in orthotics and prosthetics. All of the academic programs in the college are well-connected with community partners who provide clinical/field/internship opportunities for students and provide professional input into the curricula.

The College of Technology offers contemporary academic programs in polymers and coatings, quality engineering technology, information security, workforce education and many other areas. The college's master's degree program in engineering management recently was named one of the top 10 "best buys" in the nation by GetEducated.com, America's only consumer-oriented online degree clearinghouse. The college has four

centers and institutes that interface with business, industry and governmental agencies to provide applied research and continuing education. The centers and institutes include the Center for Product Research and Development, the Center for Regional and National Security, the Coatings Research Institute and the Textile Research and Training Institute.

The College of Arts and Sciences is the largest college at EMU. In addition to its many pre-professional programs, the college supports the curricula of all of the University's other colleges. The college has a strong faculty with a reputation for quality teaching and research. The faculty includes distinguished novelists, artists, musicians, composers, scientists, researchers and playwrights. The college has demonstrated a commitment to undergraduate research well ahead of national trends through its Undergraduate Symposium, the oldest continuously running showcase of undergraduate student research in the nation. The college also has a long history of contributions to globalizing and internationalizing the curriculum as well as to public engagement. Research centers such as the African American Center for Applied Research and Service, the Center of Environmental Information Technology and Applications and the Institute for Geospatial Research and Education provide essential community services.

EMU's Graduate School serves 5,000 graduate students through more than 90 graduate programs, including doctoral programs in technology, clinical psychology and educational leadership. EMU graduates more than 1,100 master's degree students each year.

Impact of Reduced Appropriations

Eastern Michigan University reduced its FY06 budget by \$9.6 million and eliminated 86 additional positions as the result of the continued reduction in state appropriations. Prior year reductions included 104 positions and \$26.8 million in the base budget.

EMU's FY06 appropriation of \$76,140,600 is approximately equal to its appropriation in FY98. However, its per-student appropriation of \$3,889 is \$299 less per student than it was in FY97 and \$899 less per student than in FY02. State appropriation comprises less than 36 percent of EMU's General Fund Operating Budget.

Despite having the state's sixth largest university enrollment, EMU ranks 10th in state appropriation per student among the 15 public universities.

Higher Education as a State Funding Priority

Higher education has experienced three consecutive years of declining state appropriations and has not received a base budget increase since FY02.

In establishing the Lt. Governor's Commission on Higher Education and Economic Growth, Governor Jennifer Granholm said, "If we want a high-performance economy,

we must work now to improve the strength, depth and adaptability of our colleges and universities.” The Commission Report stated, “As in the country as a whole, **education levels determine Michigan residents’ income levels and either limit or expand their opportunities for future economic gains.**” Further, the Commission Report notes, “There is also a strong correlation between the education level of a state’s workforce and its economic vitality. States that educate and nurture creative talent—keep and attract people and investment... The fact that postsecondary education leads to greater economic growth is undeniable.”

In remarks before the National Conference of State Legislators in August, Bill Gates, chairman and chief software architect of Microsoft, said “There’s an almost perfect correlation between the number of jobs in a region and the strength of the universities.”

The strength of Michigan’s universities is being eroded by multiple years of declining state support. If we want a better-educated workforce, if we want to reverse the downward spiral of the economy of the last four years, we must make higher education a funding priority and begin to reinvest in public universities. We must not only stem the tide of budget cuts, but also address the loss of revenue of the last four years if we are to ensure the future strength of our public university system.

Fixed Costs

Eastern Michigan University is projecting \$7.6 million in unavoidable cost increases for FY07. These increases are detailed below.

Faculty and Staff Compensation

\$3,275,500

The positive difference EMU makes in the lives of students is directly related to the quality of the faculty who deliver and support its academic programs and the quality of the staff who provide support services. Competitive salaries are essential to attracting and retaining talented faculty and staff. Market studies and careful benchmarking are used to guide negotiations with EMU’s seven labor unions which represent almost 90 percent of EMU’s employees. A \$3.3 million increase is required to meet existing and anticipated contractual obligations for FY07.

Health Care Cost Increases (medical and dental)

\$1,180,000

The cost of employee health care benefits continues to grow despite successful initiatives to consolidate health care plans, increase co-payment and share costs with employees. Cost increases are due, in large part, to both the cost of health care services and the cost and demand for prescription drugs, which continue to escalate. The estimated cost increase for FY07 is \$1.2 million.

Utilities

\$1,162,000

Despite continuing cost-saving initiatives, utility costs are forecast to increase \$1.2 million for FY07, primarily due to increases in fuel costs. On a daily basis, University engineers monitor utility markets to take advantage of pricing opportunities. However, the recent gulf hurricanes could affect natural gas costs even more adversely than currently predicted.

Student Scholarships and Financial Aid

\$1,256,463

Eastern Michigan University has always had a strong commitment to accessibility, affordability, diversity and attracting quality students as evidenced by its significant investment in student scholarships, fellowships and other campus aid. The University has more than doubled its investment in student scholarships and other campus aid during the last five years. Approximately 75 percent of EMU's students receive some form of financial aid. The projected increase to cover cost increases for existing scholarships, fellowships and other aid programs is \$1.3 million.

MPERS – Retiree Health Care

\$508,000

Retiree health care benefits provided by the Michigan School Employees Retirement System (MPERS) contribute to the University's cost increases. The cost to EMU for this unfunded state mandate continues to grow and is projected to increase by \$508,000 in FY07.

Revenues to Support FY07 Expenditures

Eastern Michigan University's estimated FY07 General Fund expenses total \$220,042,252, an increase of 3.5 percent. EMU is requesting from the State of Michigan a higher education CPI increase of 3 percent or \$2,284,218 in its state appropriation. A 3 percent increase in state appropriation would require a tuition and fee increase of 4.0 percent to balance the University's FY07 budget.

Cost Containment

FY06 cost containment measures include:

1. Utilization of Third Party Credit Card Vendor
The utilization of a third party to accept credit cards for tuition, room and board and fees will save EMU between \$600,000 and \$800,000 annually. This new program was implemented in October 2005, with FY06 savings projected at approximately \$600,000.

2. Lighting Retrofits

Lighting retrofits/replacement of selected lamps with more energy efficient lighting, lenses, fixtures and ballast was implemented in Pierce, Sill, Roosevelt and Sherzer halls. Savings based on measured usage reductions to date is more than \$100,000 annually. Energy efficient lighting installed in the Pray-Harold Classroom Building reduced the number of fixtures required, reduced the heat load during summer months as well as maintenance and replacement costs. The estimated annual savings is \$150,000.

3. Make-up Well and Reverse Osmosis System

The estimated savings on installing a make-up water well for the Heating Plant and Halle Library cooling along with a reverse osmosis treatment system is \$119,000 annually.

4. Demand Side Management (Peak Shaving)

To avoid setting high peak electric demands, the University is peak-shaving by reducing lighting loads, changing building temperature set points, turning off electric chillers and other pieces of equipment. The estimated savings in FY06 is \$43,000.

5. Pipe Insulation

A program has been implemented to inspect and replace pipe insulation on steam and hot water pipes in tunnels and mechanical rooms on a continuous basis. The estimated annual savings is \$42,000.

6. Health Care Co-payments and Cost Shifts

Two employee bargaining agreements will help to contain health care costs in FY06 and beyond. Consolidation of plans, increased co-pays and cost-sharing of premiums is expected to save approximately \$63,000 annually.

7. Window Replacements

Single pane windows and frames are replaced as needed with thermal pane windows and thermal break frames in residence halls and other buildings. Cost savings experienced as a result of this program include \$21,000 annually in Downing Residence Hall and \$17,000 annually in Buell Residence Hall.

8. High Efficiency Energy Star Boilers

EMU is in the process of replacing old, inefficient boilers in its campus apartment buildings. The estimated cost savings in FY06 are \$4,600 annually at the Cornell Courts Apartments and \$10,000 annually at the Westview apartments.

9. Email Direct Deposit Advice

Efforts are presently underway to replace the paper direct deposit advice with an electronic version that will be sent to all employees who have the direct paycheck deposit options. This action will reduce the costs required to print the advice by \$7,000 to \$8,000 annually.

10. Streamlining of Purchasing/Payable Processes

The on-line input of purchase requisitions is presently being rolled out across EMU's campus and is expected to be complete by June 30, 2006. On-line purchase requisitions will result in the automatic processing of supplier payments, streamline processes and result in the elimination of five staff positions.

11. Reduced Mailing Costs

The University reduced the costs of large mailings from the Admissions office by nearly \$35,000 through the use of new technology, redesigned processes and collaborative efforts between departments. The new technology also made it possible to personalize mailings and to respond more efficiently to requests while reducing costs.

12. Other

Other cost containment measures include alternate fuel vehicles, computer awareness, a central energy management computer system, more energy efficient outside lighting, reduced over-lit lighting levels, more efficient exit lighting, restrictions on space heaters and portable air conditioning units, reductions in the level of heating during holiday shutdowns, more efficient use of academic buildings and installation of instantaneous domestic water heaters.

FY07 cost containment measures will include:

1. Health Insurance Co-payments and Cost Shifts

As additional contracts with bargaining units on campus are negotiated, EMU expects to gain additional increases in co-payments for prescription drugs and shift some costs for health care premiums to new employees.

2. Utilization of Third Party Credit Card Vendor

The full-year implementation of using a third party to accept credit cards for tuition, room and board and fees is expected to save \$800,000 annually beginning in FY07.

Summary

Eastern Michigan University is projecting cost increases totaling \$7.6 million for FY07. Higher education has been identified as the key component to improving the state's economy. EMU urges the state to reverse the three-year trend of declining state appropriations to higher education and to fund higher education as a top priority. EMU requests an increase to its FY07 appropriation equal to the increase in the higher education CPI, estimated at 3.0 percent.