

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

| |
|------------------|
| SECTION: 29 |
| DATE: |
| January 18, 2005 |

RECOMMENDATION

REPORT: FINANCIAL CONDITION OF THE UNIVERSITY

ACTION REQUESTED

It is recommended that the Board of Regents receive and place on file the report on the Financial Condition of the University.

STAFF SUMMARY

During the Open Communications portion of the November 30, 2004 Board of Regents meeting, numerous topics were addressed including the University's current budget situation. The attached report addresses the concerns raised.

FISCAL IMPLICATIONS

None.

ADMINISTRATIVE RECOMMENDATION

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

University Executive Officer

Date

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EASTERN MICHIGAN UNIVERSITY
Report to the Board of Regents
January 18, 2005

Response to Questions Raised
at the November 30, 2004 Open Communications Session

During the Open Communications portion of the November 30, 2004 Board of Regents meeting, numerous topics were addressed including "the Presidential Search", "the Budget Situation", and "recent appointments in the Division of Academic Affairs". The Business and Finance Division offers the following information in response to "the Budget Situation" comments.

"Outside credit agencies rate us as being very strong."

This statement is true. As noted in the fiscal 2004 audited financial statements, the University has an "A2" credit rating by Moody's Investors Services and an "A" credit rating by Standard and Poor's. These credit ratings are primarily based on the strength of the University's balance sheet and prospects for future revenue generation at the time of review. Our strong credit ratings are not necessarily indicative of our current year documented budget shortfall. The ratings do not reflect the fact that current year summer and fall tuition/fee revenue is below budget by nearly \$2 million (projected to be \$3.6 million for the year). If enrollments continue to weaken, tuition caps persist (limiting our ability to generate new revenue) and the state economy remains stagnant, our strong credit ratings could be in jeopardy.

"There is \$27 million of an unrestricted, unreserved, totally free fund balance."

This statement is partially true. As noted in the fiscal 2004 audited financial statements, the University does have a \$27,670,562 unrestricted fund balance (General, Designated and Auxiliary Fund fund balances); however, \$21,624,070 of this balance has been reserved or designated for specific purposes (e.g. health services, parking, charter schools, indirect cost recovery funding for research initiatives, capital improvements, etc.). The attached schedule provides more detail. The Board does have the ability to change these commitments; however, the commitments support various programs and initiatives that contribute to the University's mission, educational experience of our students, and/or infrastructure. We are evaluating the accumulated balances to determine if they are at an appropriate level for their stated purpose.

Caution is needed when using fund balance (one-time, use it and it's gone, funding) to resolve annual budget deficits. Some believe that a 10% fund balance is a standard minimum benchmark. If we agree with this standard, using an all funds approach, the \$27.7 million unrestricted fund balance is 10.1% of the current year revised General Fund budget combined with fiscal 2004 Designated and Auxiliary Fund revenues. This is down from 11.2% in fiscal 2003 with \$1.5 million of unrestricted fund balance being used in fiscal 2004 for operations. On a General Fund only basis, unrestricted fund balance is only 5.2% of the revised General Fund budget.

We are considering using fund balance to resolve some of our current budget shortfall; however, it should not be considered a major source of relief.

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Report to the Board of Regents – The Budget Situation

“In the year ended 6/30/04, the University again earned a profit, as revenues exceeded expenses, and this has been true for the last 10 yrs”.

This statement is correct, however, it refers to an all-funds amount including grant funds, student loan funds, and plant funds. The primary sources of the fiscal 2004 excess revenues over expenditures were: General Fund \$9,685 from surplus tuition/fees/appropriation (after \$6.9 million in budget reductions); Designated Fund (\$1,853,107) from technology, athletics, and investment market losses; Auxiliary Fund \$327,052 from surplus in dining, publications, RecIM, and Health Services; Expendable Restricted Fund \$210,098 from scholarship funding; Student Loan Fund \$201,106 from federal funding; and Plant Fund \$1,610,739 from investment income from bond proceeds (to be used for capital projects) and project account funding. In total, these net to \$505,573 on a \$260 million operation. These funds are not typically used for General Fund budget balancing purposes.

Significant amounts of excess revenues over expenditures in the past ten years have been related to capital gifts and other activity appropriately accounted for in the restricted plant fund. Ten years ago, in fiscal 1994, the unrestricted fund balance was \$7.3 million on a \$159 million operation. This balance represented 4.6% of the revenues for the General, Designated, and Auxiliary Funds - well below the previously defined standard. Through wise financial stewardship, our balance sheet has been strengthened to a minimum fund balance standard.

“The reason for these (budget) cuts is a claimed budget shortfall. What is the basis for this conclusion?”

The basis for this conclusion is the projected \$5.1 million budget shortfall: enrollment decline (\$3.6 million), compensation for bargained-for and non-bargained-for adjustments (\$1 million), presidential transition and search (\$373,000), ACE fellows (\$90,000), and enrollment initiatives (\$57,000). These are fully documented adjustments to the fiscal 2005 budget.

“Have cash flow projections been made, using different scenarios for enrollment, state funding, and tuition increases?”

Cash flow projections, resulting from analysis of current fiscal year enrollment data to date are the basis for the \$3.6 million projected revenue shortfall. We are not projecting any further adjustments to state funding or tuition rates for fiscal 2005.

“The manner that they (cuts) have been presented is in an across-the-board, haphazard manner.”

This statement is incorrect. The first strategy considered for dealing with budget shortfalls was to address potential revenue enhancement strategies. Significant resources have been invested to attract new students and encourage existing students to reenroll or add additional credit hours. In addition, certain fees have been evaluated to better match the fee revenue with the actual cost of services (e.g. graduation fees versus graduation audit and commencement costs). The second strategy considered was to reevaluate central operating expenses (e.g. insurance, waste management, etc.) to determine if there were potential savings, which could be realized. Central scholarship budgets have been exempted to minimize harm to students and the potential loss of revenue that could result from students not enrolling due to financial reasons. The third strategy

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Report to the Board of Regents – The Budget Situation

was to spread the remaining shortfall equitably for strategic reductions within divisions. Multiple scenarios were developed (this year 4.5% and 6.0% reduction scenarios) with the consideration that certain divisions may need to carry more of the burden than others. These reductions are strategically planned to provide each division with the flexibility to manage their resources effectively. The present reduction planning process recognizes the major mission of the institution by exempting the faculty budget from cuts and honoring the commitment to search for and hire 73 new faculty members. In previous reduction planning, Enrollment Services functions have been protected to minimize the impact on enrollment generation. The fourth strategy was to consider the use of fund balance to resolve any remaining shortfalls.

“The core mission of the University, teaching our students, is again being asked to take HUGE unreasonable cuts that have no significant foundation.”

On the contrary, Academic Affairs is not being asked to take an unreasonable proportion of cuts. In fact, the entire on-campus faculty budget (\$62 million, including benefits) has been excluded from the reduction scenarios (including protecting the 73 faculty searches). In addition, the entire \$1 million divisional deficit carry forward in Academic Affairs is being forgiven and absorbed within the General Fund fund balance. In the initial fiscal 2005 budget planning, Academic Affairs received a smaller percentage of cuts than the other divisions. We must remember that the core mission of the University cannot be accomplished if basic student and business services are deteriorated to a point of not being able to function. Minimum staffing levels are needed to provide financial aid, collect revenue, advise students, clean/maintain buildings, etc. The University must be careful so that disproportionate reductions to basic services will not harm the student experience.

“...has the University determined what a target enrollment number is, in terms of headcount and/or student credit hours?”

The Board of Regents approved a plan several years ago to move toward a student headcount of 24,500 and credit hour production of 575,000, with the potential for additional growth through online and off-campus programming. To attain this, the following goals have been set for Fall semester enrollment; 2,600 freshmen, 1,800 transfers, and 1,200 graduate students.

“Has zero-based budgeting been considered, where every line item on the budget would have to be justified?” “Is across-the-board the only analysis the Administration is capable of?”

Zero-based budgeting is used in many areas. Each central account (e.g. utilities, external/internal audit, annual debt service requirements, bank service fees, etc.) is zero-based every year. Fringe benefits are also zero based every year. A form of zero-based budgeting is done for the faculty salary budget. A necessary process that needs additional review is the evaluation of each academic program for credit hour production to determine if it is meeting its goals of revenue production, faculty-student ratio, etc.

“Has the proper financial analysis been done?”

Yes, proper financial analysis has been and continues to be done, as noted throughout this document. Institutional Research analyzes a tremendous amount of data that is used for budget development and monitoring. The Enrollment Council meets periodically to evaluate new data and revise enrollment projections. Enrollment Services provides weekly enrollment reports for

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Report to the Board of Regents – The Budget Situation

monitoring current credit hour production. The Budget Office prepares monthly budget analyses comparing actual to current year budget as well as prior year actual. Individual budget managers evaluate their departmental budgets on a monthly basis. “Budget” and “Enrollment Projections” are standing agenda items for weekly Cabinet meetings. A budget update is presented to the Board of Regents at each meeting.

EMU has had a strong culture and history of fiscal and fiduciary integrity that has been confirmed repeatedly by audit results and comments by external, independent auditors.

I would be happy to take any questions.

Attachment

Eastern Michigan University
Unrestricted Fund Balance
June 30, 2004

General Fund

Designated

| | | |
|--------------------------------|-----------|-------------|
| Divisional Carry Forwards | \$990,663 | |
| Board Approved Project Funding | 1,804,345 | |
| Encumbrances | 1,946,743 | |
| Total | | \$4,741,751 |

Undesignated

6,046,492

Designated Fund

| | | |
|---|-----------|------------|
| Development Funds | 2,262,683 | |
| Indirect Cost Funds (research) | 981,190 | |
| Charter Schools | 679,258 | |
| Convocation Center | 357,720 | |
| Library | 249,355 | |
| Career Services Programs | 230,118 | |
| Student Government | 122,896 | |
| Health Services | 71,572 | |
| Residence Hall Social Funds | 125,797 | |
| Continuing Education | 339,621 | |
| Alumni Affairs | 94,014 | |
| Masco MBA Program | 247,241 | |
| Parsons Project | 299,204 | |
| WEMU Capital Improvements | 114,945 | |
| Royalty Reserves | 607,570 | |
| General Fee | 321,958 | |
| Technology Fee | 72,749 | |
| Facility Reserves | 2,490,686 | |
| General Reserves | 2,689,534 | |
| Other (Athletics, Seminars, Academic Programs, etc) | 745,849 | |
| Total | | 13,103,960 |

Auxiliary Fund

| | | |
|------------------------|-----------|-----------|
| Licensing/Publications | 443,659 | |
| Eagle Crest | 384,453 | |
| Rec/IM | 601,107 | |
| Housing | 1,017,143 | |
| Dining | 146,965 | |
| Health Services | 794,876 | |
| Parking | 263,685 | |
| Other | 126,471 | |
| Total | | 3,778,359 |

Total

\$27,670,562

Strategic Use of Financial Aid: Enrollment & Revenue Management System (ERMS)

The Strategic Use of Financial Aid

Implications for Eastern Michigan University

*Presented by
Courtney McAnuff
Vice President of Enrollment Services*

Agenda

- ◆ Overview of recent EMU Enrollment Results
- ◆ Competition
- ◆ Why the strategic use of financial aid?
- ◆ Financial aid leveraging concepts
- ◆ EMU Recommendations

EMU enrollment funnel (FTIAC)

| Stage | 2001 | 2002 | 2003 | 2004 |
|----------|----------------|----------------|----------------|----------------|
| Apps | 9,206 74.6% | 8,947 74.8% | 9,044 78.9% | 8,445 78.5% |
| Accepts | 6,865 40.9% | 6,689 39.7% | 7,139 38.3% | 6,626 35.7% |
| Enrolled | 2,809 | 2,809 | 2,734 | 2,368 |

At a 40% yield rate, EMU would have enrolled 2,650
FY students in 2004 generating at least \$2.5 million in additional
net revenue in the first year alone (282 * \$9,000, \$5K tuition and
\$4K state subsidy)

EMU enrollment funnel (Transfer)

| Stage | 2001 | 2002 | 2003 | 2004 |
|----------|----------------|----------------|----------------|----------------|
| Apps | 3,149 71.5% | 3,166 76.0% | 3,059 77.6% | 3,125 75.8% |
| Accepts | 2,253 71.3% | 2,406 70.6% | 2,373 76.3% | 2,368 68.7% |
| Enrolled | 1,607 | 1,699 | 1,810 | 1,626 |

National conversion and yield rates: 4-year public institutions (first-year students)

| Conversion ratio: | Mean | Median | 25% have ratios <u>above</u> | 25% have ratios <u>below</u> |
|----------------------|------|--------|------------------------------|------------------------------|
| Application to admit | 76% | 78% | 88% | 68% |
| Admit to enroll | 48% | 46% | 58% | 39% |
| Admit to deposit | 47% | 46% | 52% | 42% |
| Deposit to enroll | 85% | 91% | 95% | 84% |

EMU "prospect numbers"

- ◆ 2002 - 91,572
- ◆ 2003 - 86,567
- ◆ 2004 - 92,894
- ◆ 2005 - 114,332

Strategic Use of Financial Aid: Enrollment & Revenue Management System (ERMS)

The competition factor

Michigan

108,480 high school seniors / 2003-04*
108 institutions of higher education**
39.5% college-going rate (42,850)***
(ranks 18th among states)
12% leave the state to go to college (5,142)***
(ranks 43rd among states)
37,708 students ÷ 108 institutions = 349 students per institution
EMU must enroll 8,500 new students each year (all levels)

Sources:
*Western Interstate Commission for Higher Education
**The Chronicle of Higher Education
***Postsecondary Education Opportunity

EMU's market share is
approximately 5.8%
(2,200/37,708).

The competition factor

Ohio

127,619 high school seniors / 2003-04*
175 institutions of higher education**
39% college-going rate (49,771)***
(ranks 21st among states)
16.3% leave the state to go to college (8,113)***
(ranks 33rd among states)
41,658 students ÷ 175 institutions = 238 students per institution

Sources:
*Western Interstate Commission for Higher Education
**The Chronicle of Higher Education
***Postsecondary Education Opportunity

The Competition's Scholarships

- ◆ Central Michigan University
 - 1st or 2nd in class - \$2,150 per year
 - 3.5 GPA & 20 ACT - \$1,500 per year
- ◆ Grand Valley State University
 - 3.5 GPA and 26 ACT - \$1,200 per year
 - 3.3 GPA, 21 ACT and from an underrepresented population – full tuition each year
- ◆ Oakland University
 - 3.5 GPA - \$2,500 per year

The Competition's Scholarships

- ◆ University of Toledo
 - 3.6 GPA & 25 ACT - \$3,000 per year
 - 3.4 GPA & 23 ACT - \$2,000 per year
 - 3.0 GPA & 21 ACT - \$6,500 over four years
 - 3.0 GPA, 20 ACT & from an underrepresented population – \$2,000 per year
- ◆ Western Michigan University
 - 3.25 GPA - & from an underrepresented population – \$3,000 per year

Why the strategic use of financial aid?

- ◆ The environment we are operating in is among the most challenging in recent memory
 - Rising college costs
 - Shifting public policy priorities
 - Unprecedented changes in the students we are serving and will serve
 - Rising institutional discount rates/institutional aid expenditures
- ◆ It remains an integral part of a comprehensive enrollment management program

Average tuition and fee charges in current dollars, 1991-92 to 2004-05

| | Private 4-yr. | Public 4-yr. | Public 2-yr. |
|---------|---------------|--------------|--------------|
| 1991-92 | \$9,812 | \$2,107 | \$1,171 |
| 1992-93 | \$10,448 | \$2,334 | \$1,116 |
| 1993-94 | \$11,007 | \$2,535 | \$1,245 |
| 1994-95 | \$11,719 | \$2,705 | \$1,310 |
| 1995-96 | \$12,216 | \$2,811 | \$1,330 |
| 1996-97 | \$12,994 | \$2,975 | \$1,465 |
| 1997-98 | \$13,785 | \$3,111 | \$1,567 |
| 1998-99 | \$14,709 | \$3,247 | \$1,554 |
| 1999-00 | \$15,518 | \$3,362 | \$1,649 |
| 2000-01 | \$16,072 | \$3,508 | \$1,642 |
| 2001-02 | \$17,377 | \$3,766 | \$1,608 |
| 2002-03 | \$18,060 | \$4,098 | \$1,674 |
| 2003-04 | \$18,950 | \$4,645 | \$1,909 |
| 2004-05 | \$20,082 | \$5,132 | \$2,076 |

\$ Difference from 1991-92 to 2004-05
\$10,270
+105%

\$3,025
+144%
EMU is at \$5,640

\$905
+77%

The College Board, 2004

Strategic Use of Financial Aid: Enrollment & Revenue Management System (ERMS)

Average tuition and fee charges in *constant* dollars, 1991-92 to 2004-05

| | Private 4-yr. | Public 4-yr. | Public 2-yr. |
|---------|-----------------|-----------------|---------------|
| 1991-92 | \$13,450 | \$2,888 | \$1,605 |
| 1992-93 | \$13,888 | \$3,103 | \$1,483 |
| 1993-94 | \$14,262 | \$3,285 | \$1,613 |
| 1994-95 | \$14,761 | \$3,407 | \$1,650 |
| 1995-96 | \$14,979 | \$3,447 | \$1,631 |
| 1996-97 | \$15,491 | \$3,547 | \$1,747 |
| 1997-98 | \$16,147 | \$3,644 | \$1,835 |
| 1998-99 | \$16,950 | \$3,742 | \$1,791 |
| 1999-00 | \$17,384 | \$3,766 | \$1,847 |
| 2000-01 | \$17,390 | \$3,796 | \$1,777 |
| 2001-02 | \$18,475 | \$4,004 | \$1,710 |
| 2002-03 | \$18,788 | \$4,263 | \$1,741 |
| 2003-04 | \$19,292 | \$4,729 | \$1,943 |
| 2004-05 | \$20,082 | \$5,132 | \$2,076 |
| | \$6,632 +49% | \$2,244 +78% | \$471 +29% |

The College Board, 2004

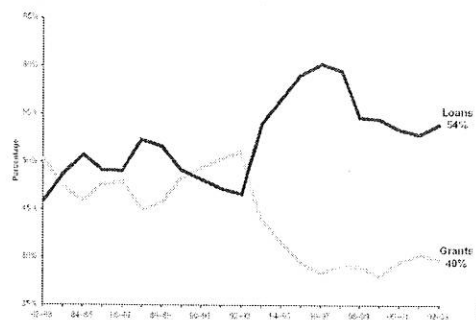
Public policy issues

- ◆ 1992 Reauthorization of the Higher Education Act
 - Represented the beginning of widespread unmet need in financial aid awards
- ◆ Reduced purchasing power of federal aid
- ◆ Shift from grants to loans as a share of total aid
- ◆ Proliferation of state scholarship programs based increasingly on merit rather than need (e.g., TOPS, Hope, etc.)
- ◆ Recent reductions in state support for higher education

EMU's Financial Aid Philosophical Considerations

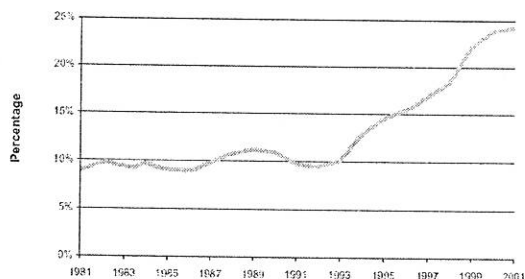
- ◆ School of opportunity; school of quality
- ◆ Recruitment; retention
- ◆ Student supply; student demand
- ◆ Ability to pay; willingness to pay
- ◆ Gift aid (scholarships and grants); self-help aid (loans and work study)
- ◆ General fund; foundation support

Grants vs. loans as a percent of total aid



Source: The College Board

Percent of state aid not based upon need



Source: The College Board

Total Aid Paid to EMU Students 1993-94 to 2003-04

| | 1993-94 | 2003-04 |
|------------------|---------------------|----------------------|
| Federal | \$36,792,000 | \$91,726,529 |
| State | 1,319,000 | 3,512,218 |
| General Fund | 4,166,557* | 15,134,252* |
| Other | 4,915,443 | 16,025,678 |
| Total | \$47,193,000 | \$126,398,677 |
| * Undergraduates | Only | |

Strategic Use of Financial Aid: Enrollment & Revenue Management System (ERMS)

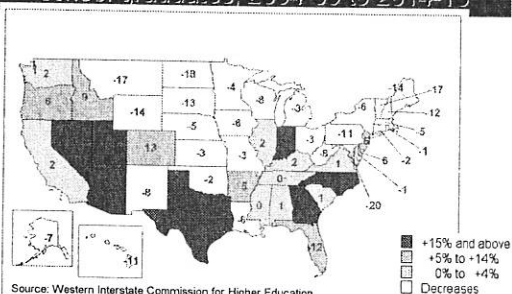
**Sample EMU awards (FAFSA
received prior to March 15, participated in PSC)**

| Description | 3.5/24 | 3.0/22 | 3.8/26 | 3.3/23 |
|----------------------|-----------------|----------------|----------------|----------------|
| Budget | \$14,475 | \$14,475 | \$14,475 | \$14,475 |
| EFC | \$0 | \$1,500 | \$5,000 | \$5,000 |
| Need | \$14,475 | \$12,975 | \$9,475 | \$9,475 |
| EMU Scholarship | \$1,500 | | \$2,600 | |
| Pell Grant | \$4,050 | \$2,500 | | |
| SEOG | \$1,200 | \$500 | | |
| Perkins Loan | \$2,500 | \$2,500 | | |
| Work Study | \$1,800 | \$1,800 | \$1,800 | \$1,800 |
| Stafford Loan | \$2,625 | \$2,625 | \$2,625 | \$2,625 |
| Total Aid | \$13,675 | \$9,925 | \$7,025 | \$4,425 |
| % Need Met/With Gift | 95%/47% | 76%/23% | 74%/27% | 47%/0% |

**Sample EMU awards (FAFSA received
after March 15, didn't participate in PSC)**

| Description | 3.5/24 | 3.0/22 | 3.8/26 | 3.3/23 |
|----------------------|----------------|----------------|----------------|----------------|
| Budget | \$14,475 | \$14,475 | \$14,475 | \$14,475 |
| EFC | \$0 | \$1,500 | \$5,000 | \$5,000 |
| Need | \$14,475 | \$12,975 | \$9,475 | \$9,475 |
| EMU Scholarship | | | | |
| Pell Grant | \$4,050 | \$2,500 | | |
| SEOG | | | | |
| Perkins Loan | | | | |
| Work Study | | | | |
| Stafford Loan | \$2,625 | \$2,625 | \$2,625 | \$2,625 |
| Total Aid | \$6,675 | \$5,125 | \$2,625 | \$2,625 |
| % Need Met/With Gift | 46%/28% | 39%/19% | 28%/0% | 28%/0% |

**Projected change in the number of high
school graduates, 2004-05 to 2014-15**



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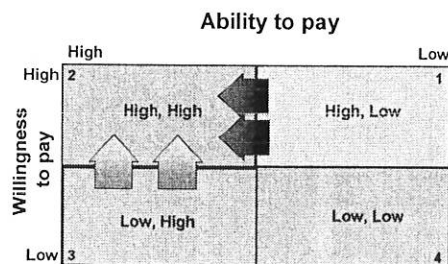
Financial aid leveraging is the
strategic investment of financial
aid funds to:

- ◆ Enroll the desired number of students
- ◆ Enroll students to achieve balance (academic, diversity, etc.)
- ◆ Achieve a targeted net revenue goal
- ◆ Control the institution's discount rate/financial aid expenditures

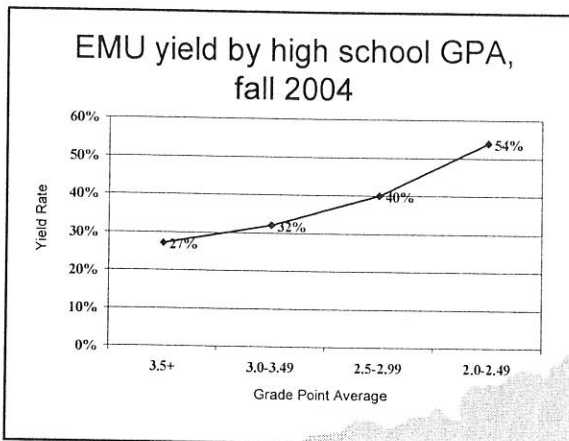
Criteria for enrollment

- ◆ Ability to pay
 - Expected family contribution
- ◆ Willingness to pay
 - Perceived value
 - Commitment to the institution
 - Institution's position in the marketplace

The relationship between ability and willingness to pay



Strategic Use of Financial Aid:
Enrollment & Revenue Management System (ERMS)



Recommendation

- ◆ It is recommended that the Board of Regents provide funding for a new scholarship program. The scholarship, valued at \$1800, will be awarded to all new freshmen with a 3.3 or higher gpa who also exhibit financial need. Projected first year costs is \$720,000 for 400 awards. Renewable at \$500 annually.