

Office of the President
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TO: Dr. David R. Russell, Commissioner
FROM: Robert A. Vartabedian, President *Robert A. Vartabedian*
DATE: April 22, 2011
RE: Response to Request for Additional Information

I am responding to your request for additional information and clarification of information provided in Missouri Western State University's request for a waiver of penalty for a tuition increase in excess of that permitted under the provisions of the Higher Education Student Funding Act. Each request is repeated below and followed by the corresponding response.

- 1. On page 3, the waiver request addresses increases in mandatory costs in excess of the CPI change. The content, however, focuses on past years. Do you have any dollar amounts associated with specific areas in which you know of increases in the coming year?**

Response: Western's waiver request addressed the question of increases in mandatory costs that had occurred. While it is more difficult to identify costs that will increase in the future, we can provide estimates of increases that are anticipated for FY 2012.

- Utilities – a 13.9 percent increase in electricity rates is projected at this time. We estimate that with a 13.9 percent increase on electrical rates and the additional renovated space in Agenstein Hall that opened in January 2011 (approximately 60,000 square feet), utility expenses will increase by \$200,000.
- Health Insurance – Western's insurance contract is by calendar year and for the first half of FY 2012, the cost to the university decreased because employees paid a larger portion of the expense. We estimate an increase of at least 10 percent beginning in January 2012, which will be an increase of \$260,000. Western's claims experience over the past months has been quite high and renewal rates in many cases industry wide are in the double digits.
- Property Insurance – estimated to increase 5 percent and we are now insuring an additional building. The expected increase will be about \$20,000.
- Information Technology - maintenance contracts will increase 7.5 percent from FY 2011 to FY2012 at a cost of an additional \$25,000.
- Reserve Fund - A critical need is to eliminate the use of reserve funding for ongoing expenses in the operating budget over the next three years. (\$500,000 per year)
- International Student Requirements - The number of international students attending Missouri Western State University has more than tripled since the 2006-2007 school year. This comes with a corresponding increase in federal unfunded mandates. In addition to the normal tracking that the International Student Services Coordinator

maintains, 5 percent of time has been added to the office's workload to address new regulations and tracking; and another 5 percent will be added shortly as SEVIS (Student & Exchange Visitor Information System) moves to SEVIS II, a new web-based system (as required by Homeland Security) which will also require more resources from admissions and instructional technology. The coordinator's salary alone accounts for over \$6,000 of this mandated requirement.

- Disability Services - The number of students and the scope of their required accommodations is increasing. Students eligible for accommodations increased 37 percent from 2008-09 to 2010-2011. The caseload for the Disability Services coordinator rose over 200 percent from 2004 to 2010. The number of hours needed for special testing increased over 19 percent from 2008-09 to 2009-2010. Just comparing fall semesters, the increase in accommodated testing hours from Fall 2008 to Fall 2010 is nearly 38 percent and, we continue to see a significant increase in 2010-2011. Expenses for providing services have increased 21% from FY 2009 to this date in FY 2011.

2. **Page 4 of the waiver request highlights a tuition loss of \$400,000 per year from the elimination of six associate degree programs. The following questions relate to that loss:**
- a. Weren't those programs eliminated effective July 1, 2010, as the result of a statutory requirement in order for Missouri Western to gain university status? If so, wasn't that loss taken into account in last year's budget? Is this an additional \$400,000 loss related to the elimination of those programs?**

Response: The legislation that granted university status to Western in 2005 states:

“As of July 1, 2010, Missouri Western State University shall discontinue any and all associate degree programs unless the continuation of such associate degree program is approved by the coordinating board for higher education...” Senate Bill 98 – Champion – 2005 Regular Session

With DHE's urging, Missouri Western developed an agreement with the two community colleges in our region. Western eliminated six of our ten associate degree programs. We stopped admitting students to four associate degree programs in December 2009 and an additional two associate degree programs in December 2010. While no new students have been admitted into those programs after the agreed upon dates, students who had officially declared majors in the programs prior to those dates have been allowed to continue to degree completion. We have estimated the tuition loss to occur over several years. Four associate degree programs continue.

- b. How much of this loss in tuition for students who would have enrolled in these programs has been offset by the general large influx of students that have led to the rapid enrollment growth or from students enrolled in graduate programs that Missouri Western has been, and is, able to offer as a result of it becoming a university?**

Response: The revenue loss that resulted from the elimination of four associate degree programs in 2009 and two associate degree programs in 2010 had a significant effect on Western's budget because most of the expenses of offering the courses in those programs continue. The courses that were required for associate degrees in electronic engineering technology, construction engineering technology, electronic and computer engineering technology, and business continue to be offered because Western continues to offer four-year degrees in those fields. In other words, with fewer students taking the first and second year courses there is less tuition revenue even though the expenses continue to be the same.

Western has experienced a significant growth in number of students over the past few years. Some of that growth has been in students seeking associate degrees. As indicated above, the total effect of the loss of the associate degree programs will not be felt for a few years from now.

Western has received \$345,435 in tuition revenue from students enrolled in graduate programs in FY 2011. The cost for these programs is higher than the cost for undergraduate programs and no new state money has been requested or received for these new programs. Graduate courses typically have lower student enrollment than undergraduate courses, so even though graduate tuition rate is higher, the net revenue is lower.

In addition to the financial consequences to Western from the elimination of six of the ten associate degree programs, we are concerned that students in this region now have reduced access to educational programs at this level. Because Western offers four-year degrees in these fields, most of the courses continue to be offered by Western. We are in discussions with community colleges to find ways to allow students in the region to take existing courses at Western and then transfer to the community college to complete the degree.

3. **Page 4 also refers to a loss of FY11 A+ funding in the amount of \$869,000.**
 - a. **While changes being implemented in the A+ reimbursement program will eventually eliminate payments to students enrolled in associate degree programs at MWSU, the current discussion is focused on a phased reduction rather than an immediate or abrupt termination. If the request for a phase-out is granted, what annual financial impact is projected on the institution over each of the next three years? What percent of A+ eligible students does this impact assume will continue to enroll at MWSU as participation is phased-out?**

Response: As stated in the waiver request, Western received \$869,000 in FY 2011 from A+ funding. The CBHE approved changes to A+ policy that will reduce or eliminate opportunities for A+ funding for students who attend Western. The timeline for implementation of those policy changes is undetermined at this time.

4. On page 8, the waiver request addresses cost increases in excess of the CPI change related to Missouri Western being an open admission institution with a mission in applied learning. However, these are very general statements that do not contain specifics as to how or why those costs have increased and by how much. Please provide supporting details.

Response: Applied learning courses (faculty/student research, service learning, study away, and practicums/internships) have smaller enrollments because of the need to have a lower faculty/student ratio. For example, FY2011 enrollments in the 412 sections of applied learning courses averaged only six students per section. This compares to regular classroom courses that had an average of 24 students, laboratory sections averaged 18 students and distance-learning courses averaged 25 students.

Each unit within Student Affairs is impacted by the open admissions designation. This includes advisement, nontraditional student services, counseling, the center for academic support, etc. Figures below show the impact on the Center for Academic Support (CAS).

During the Spring 2010 and Fall 2010 semesters, 86 percent usage was from students who had ACT scores less than 21 (which is the minimum ACT requirement for moderately selective universities). Therefore, from the \$54,998 in our student labor budget, we used \$47,298 to provide services to this population of students. The tutors are hired, trained, supervised, and evaluated by CAS Coordinators/Directors. The Math Coordinator/Assistant Director spends approximately 50 percent of his time on these duties. The Writing Coordinator/Director devotes approximately 35 percent of time to these duties. The Content Tutor Coordinator devotes approximately 50 percent of time to these duties. The Reading and Study Skills Coordinator and the Administrative Assistant also assist with the supervision of tutors—approximately ten percent each.

Over \$135,000 of professional staff salaries support this population through their supervision and training efforts.

Table 1 shows the breadth of the support provided by the Center for Academic Support for Western students:

Table 1: Usage of the Center for Academic Support

Semester	Total # of Students Using CAS	% of Usage with <21 ACT*	% Usage for Developmental Course Assistance
Fall 2007	937	81%	12%
Spring 2008	449	90%	13.5%
Fall 2008	1038	84%	6%
Spring 2009	708	87%	9%
Fall 2009	744	82%	8%
Spring 2010	612	87%	7%
Fall 2010	833	84%	16%

*Percentages include students who do not have ACT scores (non-traditional and international students among others)

The Student Academic Support Services, which includes the Center for Academic Support, also provides intrusive advising and two mentoring programs for academically high-risk students.

Currently three staff salaries are directed towards advising high-risk students and an additional 30 student affairs staff members advised students. In FY 2011, approximately \$30,000 in salaries was directed toward academic advising and support programs for high-risk students by staff whose primary job is not academic advising. Western also paid approximately \$20,000 per year for student mentors for two different mentoring programs.

Our research on the nontraditional student population indicates that nontraditional students demonstrate higher grade point averages than our general population but have significantly lower retention and graduation rates. They may often have significant challenges with stress management and depression as they attempt to juggle families and jobs in addition to their schoolwork. As this population continues to increase, additional resources will be needed to address their many issues. We must find a way, in spite of our limited resources, to support this population. As previously stated, we can no longer afford a full-time Director at a salary of \$51,302.50 to assist these students, which directly affects their graduation rate.

Approximately 25 percent of Western's student population is identified as "nontraditional" students. This category includes increasing numbers of veterans. Many of these nontraditional students have been away from school for a long time and need pre-entry intensive advising and a significant amount of support while they are enrolled. The veterans also are returning to us with significant issues. This population of students may have received brain injuries and need particular learning and testing accommodations as well as counseling and other intensive advising services. In the past, one full-time Director worked solely with this population; however, budget constraints have required us to broaden the responsibilities of this position to address the many needs of our other student populations.

5. **On page 10, the waiver request addresses costs related to other initiatives designed to meet specific needs of the state that require growth in excess of the CPI increase. Again, the discussion mentions a number of items but gives no specifics as to how or why those costs have increased and by how much. Please provide supporting details.**

Response: Western supports state initiatives to increase the number of Missourians with college degrees, to graduate more health care professionals, and to address the need for individuals educated in high demand fields. These initiatives will help position the state for economic growth; however, they also require additional resources.

- Increase the number of Missourians with college degrees
 - Missouri Western has increased FTE enrollment by 18 percent over the past three years. In order to accommodate the needs of the additional students, Western hired additional part-time faculty members.
 - Over the past three years, the part-time faculty FTE increased by 23, which cost the University approximately \$414,000. By hiring part-time faculty rather than full-time faculty at a cost of approximately \$1,270,000, Western has saved \$856,000 in annual personnel costs.

- In addition, Western has refrained from hiring additional staff even in areas when there is tremendous need, including offices of admissions, registrar, and financial aid. These and a number of other offices have endured greatly increased workload through the increased number of students who need their assistance. Additional staff will need to be hired soon.
- Graduating health care professionals
 - Western responded to the call to increase the number of students admitted to the BS Nursing program and received \$822,292 from Caring for Missourians funding in 2009. Although the Caring for Missourians program was one-time funding, Western has continued to enroll more students than it did in 2008.
 - The Nursing program is one of the most expensive programs at Western because of the specialized laboratory equipment that must be kept up-to-date, the low student/faculty ratio that must be maintained for clinical courses and the difficulty in recruitment and retention of faculty.
- Preparing students in high-demand fields (sciences, mathematics, engineering technology and health professions)
 - Courses in the sciences and engineering technology require instruction using expensive equipment that must be kept current in order for graduates to be prepared to work in. For example, Western recently solicited and received a private contribution of \$500,000 to purchase new laboratory equipment for chemistry and biology laboratories.
- Accreditation Costs have increased 15 percent from FY 08 to FY 11
- Technology Costs:
 - Classroom Presentation Equipment
 - In 1998-1999 Missouri Western received a special appropriation of \$3,000,000 that allowed the campus to install presentation systems (e.g., data projectors, document cameras, sound systems, instructor microphones, screens, control units) in all campus classrooms (~ 150). Annual surveys indicate that
 - faculty are convinced that presentation systems enhance learning;
 - virtually all faculty use classroom presentation systems;
 - many faculty use classroom presentation systems daily;
 - students increasingly use presentation systems for course assignments.
 - With over a decade of daily use, repair or replacement of presentation system components has become a significant issue. To maintain existing classroom presentation equipment, approximately \$200,000 of unbudgeted funds is necessary annually.
 - Adaptive Technology Equipment
 - The number of Western students requesting adaptive technology (e.g., voice recorders, audio and Braille versions of texts, text readers, large computer monitors, speech to text converters, etc.) has skyrocketed from eight students per term in 2009 to over 50 students per term in 2011. To minimally address these needs, approximately \$40,000 in equipment and \$30,000 in additional student worker funding was required in 2011. We

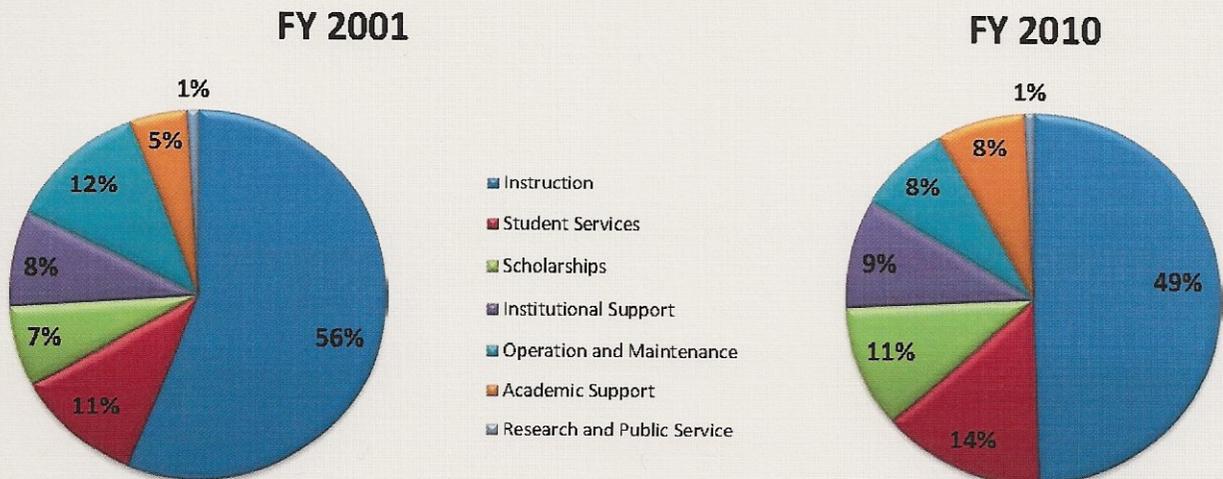
anticipate that this trend will continue and that this budget will need to increase.

- Library Technology Needs
 - Given budget limits, many standard journals are not readily available. The University librarian has indicated that \$100,000 annually is minimally required for additional electronic journal databases. Over \$200,000 is required annually for current databases, and this amount grows with increases in contracts for databases.
- Changes in Instruction
 - Faculty are increasingly expecting students to use technology to complete course assignments. To partially address demand, an annual budget increase of approximately \$40,000 is necessary.
 - To support the increased use of video by faculty, over \$60,000 is required for servers and storage units. Annual maintenance of these items will also be required.

6. On page 11, Figure 2 depicts the FY10 Operating Expenses by function. Please provide a chart for FY01 or another past year as you did with the “operating budget-expenses” charts on page 12 to show how these proportions have changed.

Response: Figure 1 shows operating expenses by function based on audits done for FY 2001 and FY 2010. Western has increased the overall percent of expenditures dedicated to supporting students. Areas included in supporting students are Instruction, Student Services, Scholarships and Academic Support. Combining those areas shows that support has increased from 79 percent for those areas in FY 2001 to 82 percent in FY 2010. Scholarships increased from 7 percent of expenditures by function in FY 2001 to 11 percent in FY 2010. To meet budgetary needs Operation and Maintenance expenditures decreased from 12 percent of expenditures by function to 8 percent. Obviously some of this reduction in funds results in less money going for maintenance and repair and leads to an increase in the deferred maintenance backlog.

Figure 1: Operating Expenses by Function



7. **At the bottom of page 11, there is a statement about the intentional growth in the scholarship budget from 8 percent in FY 2001 to 12 percent in FY11. How will this tuition increase affect that trend?**

Response: The tuition increase proposed by Western would allow us to continue the current scholarship budget and may allow us to allocate additional resources to scholarships to meet the increased demand that comes with increased enrollment. Currently, a portion of the scholarship budget is allocated from the reserve budget. The proposed tuition increase would provide a means to fund scholarships from the operating budget and reduce the need to fund scholarships from reserves.

8. **Page 13 mentions \$13 million in deferred maintenance costs, based on a 2006 audit, and that \$500,000 is being allocated to deal with these needs. What is the industry standard for amounts that should be directed for deferred maintenance and how does the \$500,000 compare to that standard?**

Response: The \$13 million dollars is a backlog of deferred maintenance needs. The industry standard suggests that 1.5 percent to 3 percent of the operating budget should be allocated for maintenance and repair. The Coordinating Board for Higher Education and the Division of Design and Construction consider 1.5 percent of property value for on-going maintenance as reasonable. Our FY 2012 Appropriations Request, Form 5, Decision Item 4, requested on-going maintenance and repair funding of \$1,974,114.

Currently Missouri Western does not have any money allocated in the base budget for maintenance and repair. The dollars that are spent annually are to address emergency repairs that are absolutely necessary (repair roof leaks, replace a broken compressor, etc.), so technically no money is spent to address the deferred maintenance backlog. The problematic part of the \$500,000 we allocate for these emergency repairs is that it comes directly from the reserve fund. Because of that, we spend only on emergency repairs in order to minimize the use of the reserve fund.

9. **Page 15 addresses steps taken to reduce costs and become more efficient. Most of the statements, however, are very general and have no dollar amounts associated with them to provide a sense of how significant these efforts have been. Please provide any dollar amounts you can to these steps.**

Response: The following are amounts associated with cost saving efforts:

1. Executive/Management positions eliminated - \$381,341
 - a. Additionally, beginning in FY 2012, one academic dean position will be eliminated and the College of Professional Studies and the Craig School of Business will be consolidated under one dean. \$136,500
2. Operating budgets cut 20 percent - \$500,000
3. Faculty compensation for summer teaching reduced - \$144,300 less in 2010
4. Vacant positions in the budget were eliminated - \$336,000
5. The use of adjunct faculty instead of full time faculty - \$856,000

6. Renegotiated off-site classroom rental space resulting in space being donated for one year - \$50,000
7. Custodial services reduced. Salary and benefit saving for three positions not hired - \$81,000
8. Share the cost of a faculty member with the Community Orchestra - \$21,000
9. Elimination of university contingency and capital funds - \$510,788
10. Reduced the strategic planning budget by \$295,000
11. Reduced dues, memberships, and professional fees by \$40,000

10. On page 18, there is a statement about the use of the reserve fund and it being in danger of going below the governing board's policy of 4-6 percent of the operating budget.

- a. What is the current size of the reserve fund and its percentage in relation to the operating budget?**

Response: The reserve balance at the beginning of FY 2011 was \$4.7 million. The current operating budget is covered by \$1.5 million from reserves meaning the ending balance for FY 2011 will be \$3.2 million, which would leave the reserve fund at 6.6 percent of the operating budget.

- b. How much of the reserve fund do you expect to have to use if this increase is approved, or do you expect to grow the reserve fund if this increase is approved?**

Response: If the increase is approved, we plan to reduce the operating base budget's dependence on reserves by \$500,000 for FY 2012. This will still leave a very troubling \$1 million coming from reserves to cover on-going operating costs. As we are sure you understand, this is like paying your mortgage out of your savings account. Eventually you will run the savings account to zero and not be able to pay the mortgage.

- c. What is the industry standard regarding the size of a reserve fund?**

Response: The National Association of College and University Business Officers (NACUBO) published "Key Performance Indicators in Finance and Administration" which discusses resource sufficiency and the primary reserve ratio. It states a reasonable threshold for the ratio is .40, which means 40 percent of a year or 4.8 months worth of revenue to meet expenditures. This "indicates sufficient cash for short-term needs, facilities maintenance, and contingency reserves." Another consideration in determining an adequate reserve is revenue sources – primarily tuition and state appropriations for a regional university.

Based on state funding over the last ten years, it would be prudent to have four months worth of expenses covered in a reserve fund. In FY 2002 and FY 2003, Missouri Western had almost \$3.8 million withheld from state appropriations. There have also been three fiscal years during that period where Western will have experienced base cuts in state appropriations (FY 2003 10 percent, FY 2011 5.2 percent and FY 2012 7 percent).

Western's Board currently requires the university to maintain a minimum financial reserve of 4 percent to 6 percent of the operating budget in the reserve fund. This means in FY 2011 Western should have no less than a 4 percent minimum Board reserve fund of \$1.9 million.

This requested tuition increase would not help to grow the reserve but rather work towards keeping it from being depleted. Our goal is to eliminate the dependence of using reserves in the operating budget by \$500,000 in each of the next three years.

d. To what extent has that reserve fund been used in each of the past two fiscal years?

Response: FY 2009 \$1.9 million was used from reserves to cover recurring base budget costs. In FY 2010, \$1.1 million was used from reserves (The reason it was less than FY 2009 was because a smaller amount was used for emergency repairs ("maintenance and repair"). In FY 2009, \$607,698 was spent for those repairs and in FY 2010, \$286,159 was spent. It is estimated that for FY 2011 \$1.5 million will be used from reserves to cover on-going annual costs.

If the use of the \$1.5 million annually is not resolved soon and we continue to use the reserve fund for these base budget expenses we will go below the Board minimum reserve of \$1.9 million in FY 2013 and the reserves would be depleted in FY 2014.

Thank you for your consideration of our request.

cc: Joseph Cornelison, General Counsel for MDHE
Mel Klinkner, Vice President for Financial Planning and Administration
Kylee Strough, Chair of MWSU Board of Governors
Paul Wagner, Deputy Commissioner for MDHE