

Northwest Missouri State University Waiver Request

Northwest Missouri State University (Northwest) has experienced a 16.8% increase in student FTEs from 6,695 (FY 2007) to 7,821 (FY 2011) while state appropriations per student FTE have decreased 12.1% from \$4,429 (FY 2007) to \$3,891 (FY 2011). For the period covering FY 2010-12, state appropriations for Northwest are projected to decrease by an estimated 13.2% or \$4.3 million, including a proposed 7% or a \$2.3 million decrease in the coming fiscal year. Northwest has complied with the tuition freeze over the past two years for Missouri resident undergraduates by reducing operating budgets through extensive expense reductions, implementing hiring delays, eliminating positions, withholding salary increases for employees, implementing numerous cost containment initiatives, foregoing needed purchases of goods and services, and foregoing millions of dollars in much needed deferred maintenance and repairs. At the same time that revenue from state appropriations has been decreasing, costs have been increasing. The consumer price index (CPI) has increased by 4.3% over the last three years and mandatory costs at Northwest for such things as benefits, energy/utilities and compliance requirements have risen 24.8% from \$11.1 million (FY 2007) to \$13.9 million (FY 2011) which is well beyond the rate of inflation. Given these circumstances, the Northwest Board of Regents, at its March 29, 2011 meeting, approved an increase in tuition and required fees for Missouri resident undergraduates of 1.8% or \$4.13 per student credit hour.

Section 173.1003, RSMo states that Northwest must submit to the Coordinating Board of Higher Education (CBHE) "five percent of its current year state operating appropriation amount" or to submit a request to waive the penalty articulated in Section 173.1003, RSMo. This waiver request addresses the criteria that will be used to evaluate a waiver request according to guidance from the Commissioner of Higher Education. However, it is readily apparent that the "relationship between state appropriations and the consumer price index", the primary factor contained in Section 173.1003 RSMo, amply justifies the increase in tuition and required fees adopted by the Northwest Board of Regents.

Table 1 below shows tuition and required fees for a Missouri resident undergraduate student as defined by Section 173.1003, RSMo.

Table 1: Tuition and Required Fees, Missouri Resident Undergraduate Students *

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Change</u>	<u>% Change</u>
Northwest	\$6,882.60	\$7,006.50	\$123.90	1.8%

* Based on 30 credit hours; excludes fees passed by student referendum per SB389.

The tuition and required fees recommended and approved by the Northwest Board of Regents were developed through careful study of the budget needs in order to support both the need for quality and the desire for access and affordability. The decisions were shaped with input from various stakeholders including Northwest's scholarship committee, student regent, student senate, faculty senate, support staff council, and professional and administrative staff council.

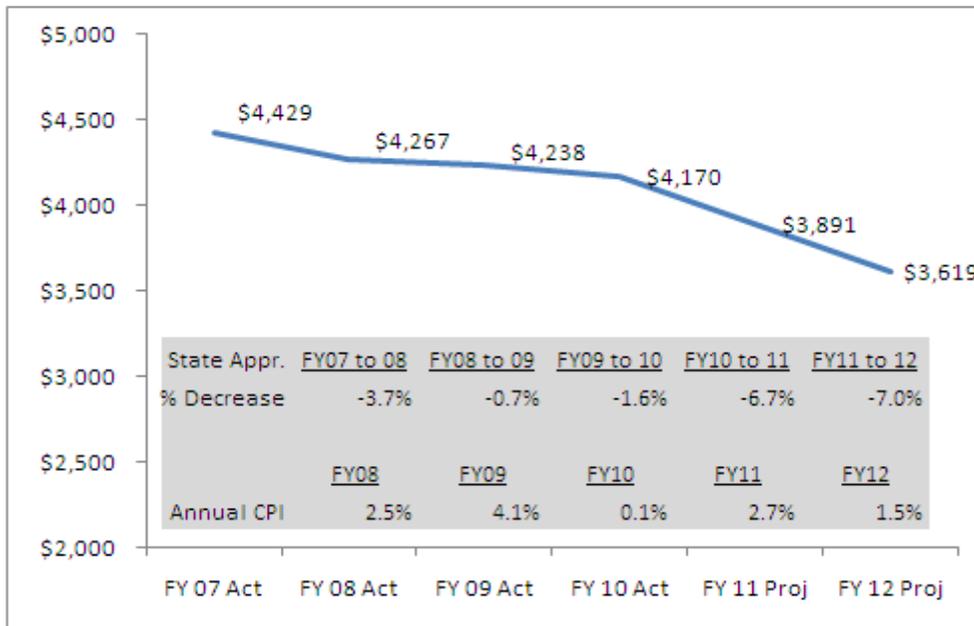
In FY2010, 85% of undergraduate students at Northwest received financial aid which reduces the overall costs to students. Students who received financial aid paid an average of 42.4% of the total charges for tuition and required fees. Northwest's administration, working with students, faculty and staff, have worked hard to keep the increases reasonable, balancing the need for quality, access and affordability. The 1.8% increase in tuition and required fees will only generate \$1.7 million in revenue after setting aside 33.8% of the tuition increase for additional financial assistance in the form of scholarships and fee waivers.

In compliance with Section 173.1003, RSMo, Northwest is requesting a waiver of penalty due to tuition and required fee increases at a rate greater than CPI. On the following pages, Northwest documents the extraordinary circumstances that warrant the increase in tuition and required fees approved by the Northwest Board of Regents.

1. State operating appropriations for FY 2010 per FTE student for academic year 2009-10 compared to the state operating appropriation for FY2011 per FTE student for academic year 2009-10.

State support provided to Northwest per FTE Student was \$4,170 in FY 2010 and \$3,891 in FY 2011 resulting in a decrease of \$279 or -6.7%. State support is estimated to decrease from \$3,891 per FTE Student in FY 2011 to \$3,619 in FY 2012 resulting in an additional decrease of \$272 or -7.0%. Thus, the reduction in state support per FTE student of \$272 is greater than the increase in tuition and required fees of \$123.90 approved by the Northwest Board of Regents as previously outlined in Table 1. From a historical perspective, the percent decrease in state operating appropriations from FY 2007 to FY 2012 is projected to have decreased by 18.3% or 26.6% when adjusted for annual CPI, as illustrated in Figure 1 below.

Figure 1: State Operating Appropriations per FTE Student



2. Mandatory costs that have increased at a rate that exceeds the increase in the CPI, including but not limited to increased costs incurred in connection with the implementation of new mandates or legal requirements.

As a public higher education institution, Northwest experiences costs that fluctuate differently than the CPI. The Higher Education Price Index (HEPI) is a separate inflation index that has been developed and is used to reflect the market basket of goods purchased by higher education institutions. This index has historically run 150 basis points over the CPI and reflects the significant professional mix of the workforce, the increases in retirement and health care costs as well as significant physical plant operating costs, and the investments required in information technology and library services. Another area of growing unfunded mandates is in the area of regulatory compliance, which increases administrative expense and is not reflected in CPI growth. Northwest has the burden of all laws applicable to any employer (ADA, I-9, HIPAA, nondiscrimination regulations, affirmative action) and, in addition, is regulated by environmental rules, rules governing "Internet Service Providers" (Digital Millennium Copyright Act) and by copyright rules in our libraries, publishing and course materials. Northwest must also maintain compliance with tax regulations, including those that govern charitable giving. In addition, given the institution's international student enrollment and global interactions, Northwest is subject to extensive immigration regulations for students and scholars. Additional Federal regulations with which Northwest must comply include comprehensive financial aid and student data reporting rules under IPEDs; campus safety under the Campus Security Act, Drug Free Schools acts and other laws; student records under the Family Educational Rights and Privacy Act (FERPA); Title IX, Sexual Assault Victim Bill of Rights; and the Equity in Athletics Act.

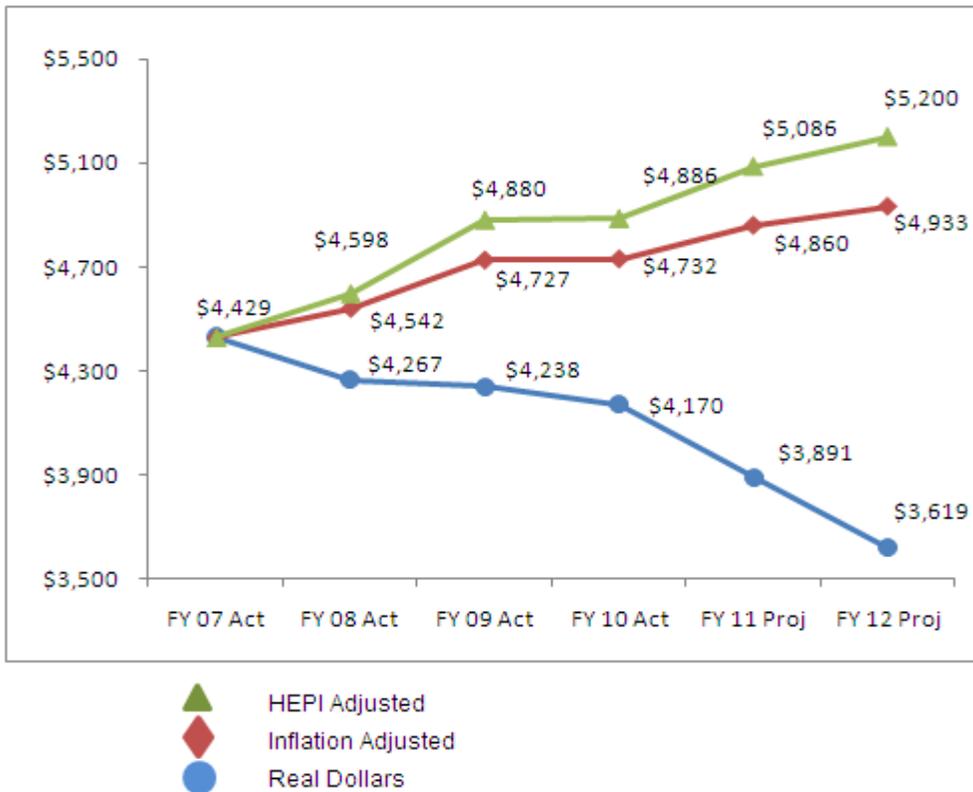
While it is difficult to quantify the costs of compliance described above, the Association of College & University Auditors (ACUA) has written various articles on risk management and compliance programs and the associated costs for universities. There is a complex process involved for universities to establish effective compliance programs that meet new or expanded regulations – the Health Insurance Portability and Accountability Act (HIPAA), Environmental Health and Safety, and most recently Conflict of Interest.

Mandatory costs projected for the FY 2012 budget are estimated to increase by nearly \$2.0 million including retirement benefits, health insurance, maintenance and repairs, utilities, and other various compliance reporting requirements including IPEDs, Academic Program Reviews, Financial Aid, Title 3, Teacher Education Reporting, Title 2, FCC and Congress Broadband Reporting Requirements, RSMo 590.701 requiring video of interrogations, financial audit A133 Circular Audit requirements, etc.

3. Historical trends in the institution’s operating appropriations, tuition policy and other financial issues and relationships.

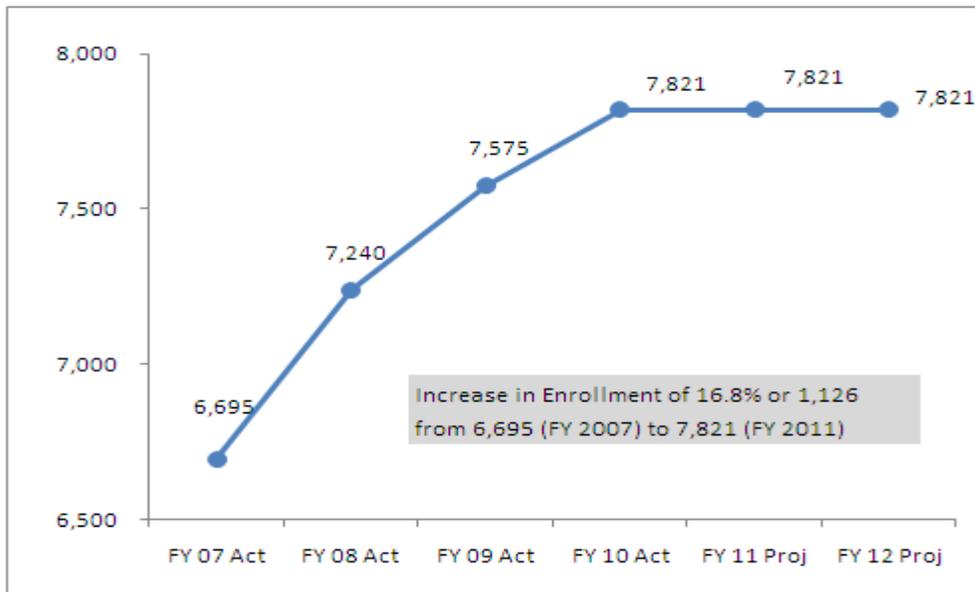
As stated in Figure 1, state support over the past few years has declined. As Figure 2 below illustrates, in comparing the real dollars (blue line) projected for FY 2012 to FY 2007, the state appropriation per FTE student has decreased by \$810 or 18.3% from \$4,429 in FY 2007 to \$3,619 in FY 2012. Further comparisons of the current real dollars (blue line) to the inflation adjusted (red line) and HEPI (green line) show significant gaps in projected real dollar appropriations. The red and green lines show state support in FY2007 dollars adjusted for inflation through projections for FY 2012 using the CPI (red line) and HEPI (green line). Using FY 2012 projections, the real dollar (blue line) state appropriations per FTE student are below the CPI inflation adjusted rate by 36.3% or \$1,314 (red line) and 43.7% or \$1,581 (green line).

Figure 2: State Support Per FTE Student in Real, Inflation Adjusted and HEPI Dollars



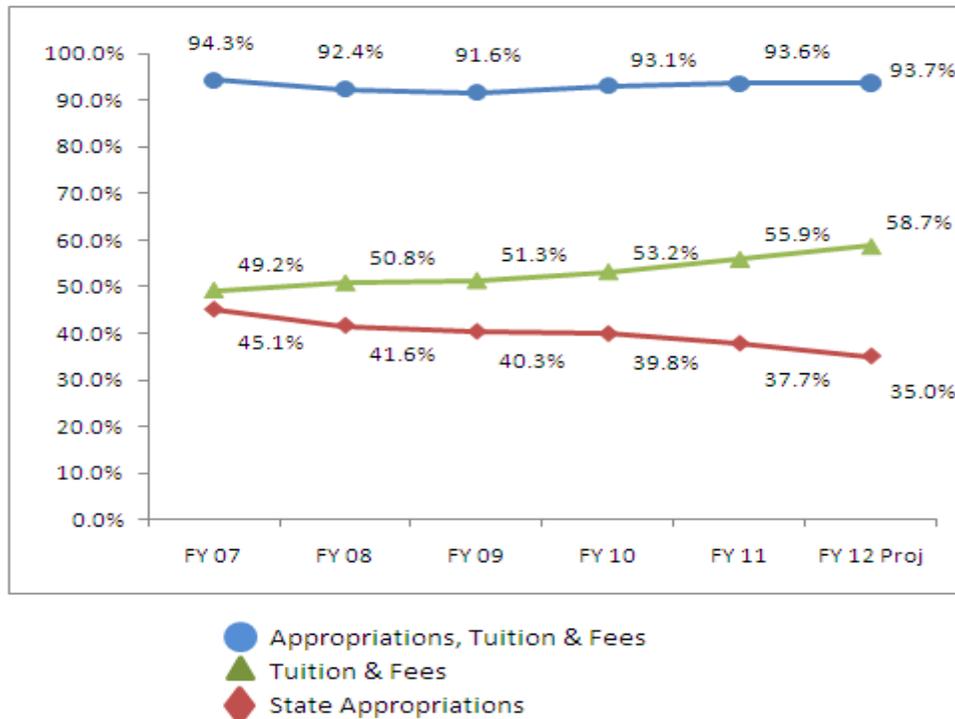
During the same time period, enrollment at Northwest has reached all-time highs with Student FTEs exceeding 7,800 increasing by 16.8% since FY 2007 as shown in Figure 3 below.

Figure 3: Student FTE Enrollment Growth



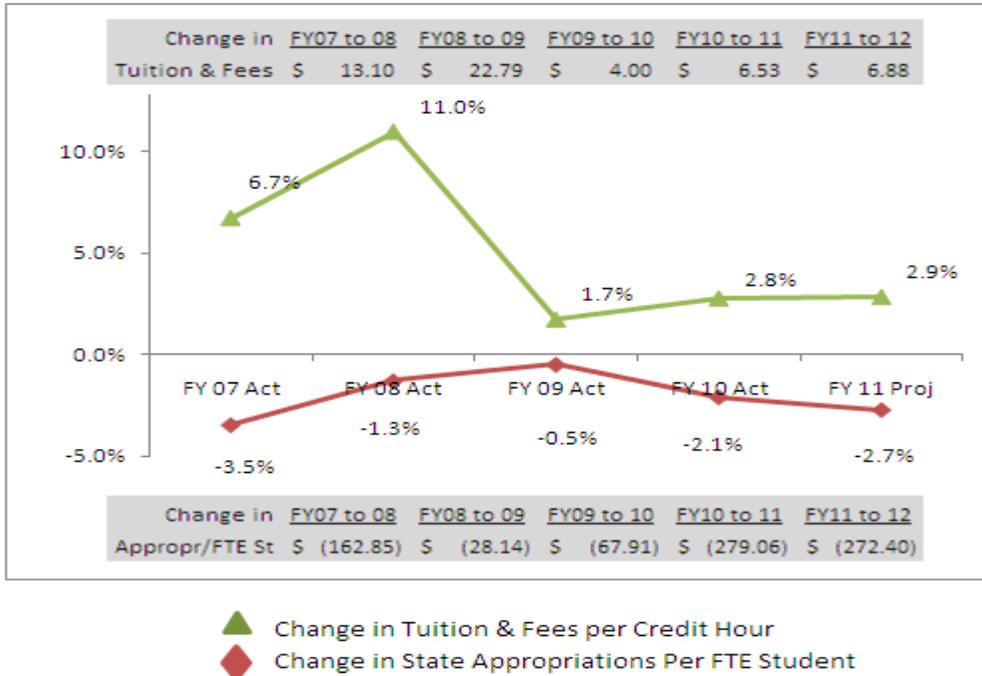
Northwest students are contributing more to the cost of their education as state funding continues to decrease per Student FTE. State appropriations, as shown by the red line in Figure 4 below, has decreased from 45.1% in FY 2007 to 37.7% in FY 2011 and is projected to decrease further to 35.0% in FY 2012. The tuition and fees, as shown by the green line in Figure 4 below, has increased from 49.2% in FY 2007 to 55.9% in FY 2011. The total for state appropriations, tuition and fees in the operating budget is shown by the blue line in Figure 4 below.

Figure 4: State Appropriations and Tuition & Fees as a Percentage of Total Operating Budget



Over the past four years, tuition and fees for Missouri resident undergraduates have seen modest increases (note increase in FY 2011 will be implemented in FY 2012 due to tuition freeze). Figure 5 compares the change in the resident undergraduate tuition and fees per credit hour (green line) and the change in the state appropriations per FTE student (red line).

Figure 5: Percent Change in Resident Undergraduate Tuition Per Credit Hour and Percent Change in State Appropriations Per FTE Student



Over the same four-year period with declining state appropriations and increasing enrollment, Northwest has committed resources to access and affordability through financial assistance for undergraduates in the form of scholarships and fee waivers that have increased from \$7.5 million in FY 2007 to \$12.1 million in FY 2011 which represents an increase of 62.0%. Northwest is committed to helping students with financial need and will dedicate 33.8% of the revenues generated from the increase in tuition and fees in FY 2012 to this purpose.

It is important to note that during these times of serious financial constraints and the challenge of educating growing numbers of the state’s students, Northwest has increased enrollment and continues to exceed state and national benchmarks for retention and graduation rates.

4. Costs related to your institution’s mission that require growth in revenues in excess of the increase in CPI.

Northwest has long been recognized for educating some of the nation’s best teachers and the Horace Mann Laboratory School provides students and faculty with unique opportunities to combine experiential practice and research to identify and apply the best pedagogical practices. Similarly, the university farm provides students in agriculture and related sciences with opportunities to apply theory in research and practice. Additionally, Northwest has one of the only undergraduate programs in the nation in nanoscale technology. Furthermore, Northwest’s Missouri Academy of Science, Mathematics and Computing is an early-entrance-to-college, two-year residential program, located on the Northwest campus that replaces the junior and senior years of traditional high school. While at the Missouri Academy, students are enrolled in a curriculum consisting of coursework focused in math and science. Upon successful completion, students earn an Associate of Science degree as well as a high school diploma. This opportunity for high performing and exceptional students serves the state by providing programming in the STEM disciplines, which have been

identified by the state as high-need disciplines. These programs along with their equipment, technology and facility needs are among the most expensive courses of study and cost from two to five times more just for undergraduate instruction. These academic programs are consistent with the economic plan developed by the State, which increases the need for a workforce educated in the STEM disciplines. These programs are all critical for addressing contemporary workforce needs in Missouri and across the country so our nation can successfully compete in the global marketplace. There is a constant need for maintenance and upgrades to these state-of-the-art, hands-on programs.

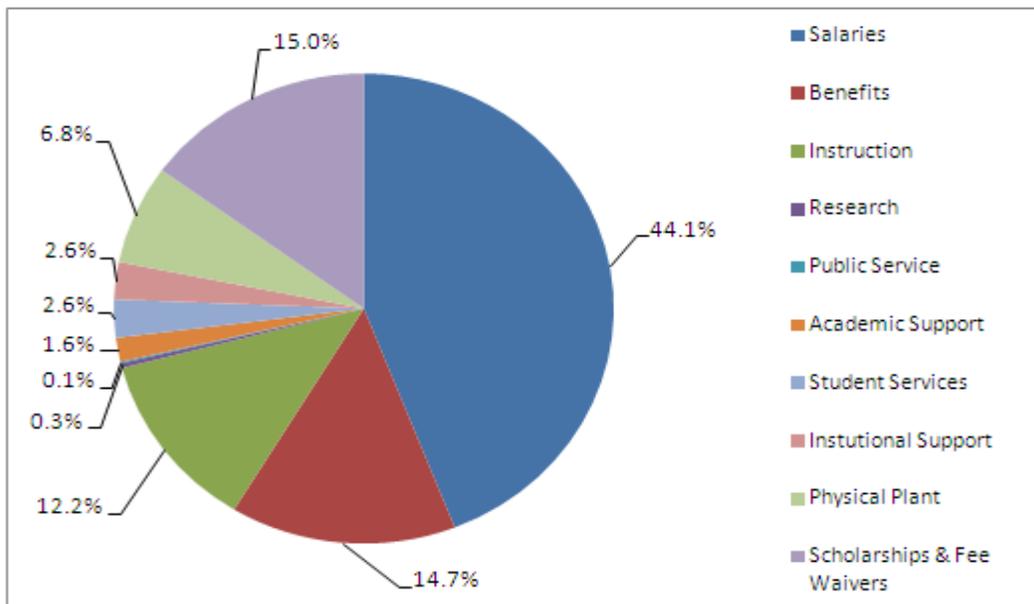
5. Costs related to other initiatives designed to meet specific needs of the State of Missouri that require growth in revenues in excess of the increase in CPI.

The quality of our academic programs continues to draw record numbers of students. In FY 2011, Northwest’s student enrollment grew to more than 7,800 student FTEs increasing the institution’s growth in enrollment by 16.8% over the last four years. This supports the Governor’s initiative to educate more Missourians and to achieve the goal of 60% of Missouri residents with post secondary degrees. Northwest demonstrated its commitment to access and affordability the last two years by implementing a tuition freeze for Missouri resident undergraduate students, and Northwest continues to support student access with increased institutional financial assistance as 85% of Northwest’s undergraduate students receive assistance. Northwest will commit 33.8% of the increase in tuition for FY 2012 to additional financial assistance in the form of scholarships and fee waivers.

6. The current and/or historical structure of the institution’s total budget, including the institution’s allocations for faculty and non-faculty salaries, institutional financial aid, student support, research, physical plant maintenance and other operational activities.

As shown in Figure 6, both faculty and non-faculty salaries and benefits account for 58.8% of the FY 2011 annual operating budget at Northwest compared to the IPEDS regional average of 67.9% adjusted for FY 2011 comparison purposes. Northwest’s program operating expenses are as follows: 16.8% for instruction, research, public service, academic support and student services; 15.0% for scholarships and fee waivers; 6.8% for physical plant including operating and maintenance expenses & 2.6% for administrative, institutional support such as accounting, procurement, human resources, legal, fundraising, public relations and legal services.

Figure 6: FY 2011 Percent of E&G Operating Budget by Expense Type and Program Classification



7. Damage, destruction, or deterioration of facilities, infrastructure, property or other physical assets of an institution for which there are insufficient funds from state appropriations or insurance proceeds to repair or replace.

The financial constraints have not only come at a cost to our employees with no pay increases the past two years but also at a cost to our physical plant in deferred repairs and maintenance. Northwest has seen significant enrollment growth; however, its ability to both support enrollment and provide excellent educational programs is threatened by outdated, deteriorating classrooms and by the limited supply of specialized instructional space. Northwest is developing plans to address these needs with a combination of new construction and renovations that adapt older facilities for current needs.

Northwest is currently not able to keep all facilities functional for today's needs as well as the \$120 million backlog in key renovation and repair needs campus wide. The Facilities Condition Index (FCI) rate (as explained in the following paragraph), with regard to repairs and maintenance is increasing, and the backlog of needs is growing beyond the university's ability to manage it with current resources. As a result, Northwest is being forced to use resources to fix emergencies rather than invest in preventive maintenance and renovations.

Northwest recently had a facility needs assessment completed by a third party that provided a FCI which is a ratio used to measure the relative condition of a portfolio of buildings. It is calculated by dividing the current replacement value by the existing cost of deferred maintenance. Northwest's current FCI is calculated at 0.33. Using the industry benchmark, an FCI > 0.30 is considered "critical" (note that a lower FCI is better, with an FCI < 0.05 is considered "excellent"). In order maintain its current FCI, it is estimated that Northwest would need to spend approximately \$10 to \$12 million a year over the next 10 years. Currently, Northwest allocates less than \$0.8 million to deferred repair and maintenance needs.

8. Actions your institution has taken to reduce costs and become more operationally and financially efficient. Examples may include, but are not limited to, any elimination or restructuring of academic programs or reductions in administrative structure or staff.

Northwest has focused on initiatives resulting in increased effectiveness and efficiency while decreasing costs per student FTE. Summarized below are some of the key actions taken by Northwest to reduce, eliminate and defer costs as well as those initiatives implemented to contain growth in costs. Savings in excess of \$3.77 million have been implemented over the past two years including the following:

- Savings due to sick and vacation leave policy changes reducing future liabilities (\$1.40 million)
- Savings due to renegotiated contracts with Northwest suppliers (\$0.50 million)
- Savings realized from eliminating or combining positions and/or hiring delays (\$0.42 million)
- Cost avoidance savings from in-house improvements versus outsourcing (\$0.42 million)
- Savings as a result of refinancing bonds (\$0.40 million)
- Savings from reducing landlines telephones throughout campus (\$0.28 million)
- Savings due to reorganizing operations and streamlining processes (\$0.25 million)

The impact of these efforts is shown in Table 2 comparing Northwest's annual operating expenses per FTE student FTE from FY 2007 to FY 2011. This impact is most noticeable in FY 2010 with additional decreases projected for FY2011 once results are finalized at the end of the fiscal year.

Table 2: FTE Student Enrollment and State Operating Revenues and Expenses per FTE Student

<u>Statistics</u>	Per FTE Student					Change From FY07 to FY11	
	Actual FY 06-07	Actual FY 07-08	Actual FY 08-09	Actual FY 09-10	Projected FY 10-11		
FTE Students - End of Term	6,695	7,240	7,575	7,821	7,821	1,126	16.8%
Operating Revenues							
State Appropriations	\$ 4,429	\$ 4,267	\$ 4,238	\$ 4,170	\$ 3,891	(538)	-12.1%
Tuition	\$ 4,837	\$ 5,213	\$ 5,398	\$ 5,575	\$ 5,765	928	19.2%
Scholarships, Grants & Misc.	\$ 560	\$ 780	\$ 880	\$ 727	\$ 656	96	17.2%
	\$ 9,827	\$ 10,259	\$ 10,516	\$ 10,472	\$ 10,313	486	4.9%
Operating Expenses							
Salaries & Benefits	\$ 6,085	\$ 5,991	\$ 6,102	\$ 5,770	\$ 6,056	(29)	-0.5%
Operating	\$ 2,980	\$ 3,174	\$ 2,951	\$ 2,576	\$ 2,708	(272)	-9.1%
Scholarships & Fee Waivers	\$ 1,116	\$ 1,374	\$ 1,502	\$ 1,166	\$ 1,548	432	38.7%
	\$ 10,182	\$ 10,540	\$ 10,555	\$ 9,512	\$ 10,313	131	1.3%

*** Results from initiatives implemented focusing on improving effectiveness and efficiency while decreasing operating expenses per FTE Student

9. Any other extraordinary circumstances.

Under criteria #7 above, the under-investment in on-going facilities maintenance, repair and renewal, and the growing magnitude of the deferred maintenance backlog was documented. What this does not reflect is the investment commitment that Northwest has made over the years with regard to its alternative fuels program. Since inception, Northwest has generated over \$13 million in savings from the use of alternative fuel sources compared to purchasing national gas and oil over the life of the alternative fuels program which is now in need of major repairs and renovations which will not be possible without state support to sustain these savings.

10. Public comments about the material posted on the MDHE website pertaining to the institution's waiver request (this section left blank and reserved for public comment).