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April 22, 2011

Dr. David R. Russell
Commissioner of Higher Education
Missouri Department of Higher Education
205 Jefferson Street
Post Office Box 1469
Jefferson City, Missouri 65102-1469

Dear Commissioner Russell:

We appreciate the efforts of the Governor and the General Assembly to support public higher education during the recent financial downturn. However, increased costs since the 2008-2009 academic year have caused us to review numerous options designed to maintain institutional quality. As a result, on April 9, 2011, the Truman State University Board of Governors approved a 4.7% increase in tuition and required fees for Missouri residents enrolled in undergraduate courses. This increase is effective for the 2011-2012 academic year.

Truman's response to the criteria to be addressed in requesting a waiver of the HESFA penalty is attached. We believe this information documents the need for a tuition increase which exceeds the CPI. I will be happy to provide additional information if needed.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Paino', written over a horizontal line.

Troy D. Paino
President

c: Dave Rector

TRUMAN STATE UNIVERSITY

CRITERIA TO BE ADDRESSED IN SUBMITTING REQUESTS TO WAIVE A HESFA PENALTY

1. **State operating appropriation for FY 2010 per FTE student for academic year 2009-10 compared to the state operating appropriation for FY 2011 per FTE student for academic year 2009-10.**

The chart below indicates the relationship of enrollment versus funding at Truman during the most recent three fiscal years.

	<u>FTE</u>	<u>Appropriation</u>	<u>\$/FTE</u>
FY09	5653	45,161,510	\$7989
FY10	5511	45,161,510*	\$8195
FY11	5677	42,810,941	\$7541

*excludes \$756,339 Caring for Missourians one-time funding

Analysis: The state appropriation per FTE student declined by 5.6% from FY09 to FY11. From FY10 to FY11 the appropriation per FTE student dropped by \$654 or 8.0%.

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.

Public institutions of higher education face many of the cost pressures which impact business and industry. This includes operating expenses such as utilities and insurance, as well as the cost to upgrade technology infrastructure in order to remain competitive. Key cost drivers at Truman include the following:

Utility Costs

Electric (Ameren) rate increases – March 2009 7.7% increase
July 2010 9.9% increase
July 2011 rate increase projected at 11%

Natural Gas (Atmos & ONEOK) rates – ONEOK is the supplier and rates fluctuate based on the market. Atmos is the local gas company distributor. The fee for delivery by Atmos was increased by 70% September 2010.

Water & Sewer (City of Kirksville) – No increase in recent years but the city anticipates an increase in 2011 to offset higher operating costs driven by electric rate increases and chemical costs.

Trash (Veolia) – July 2009 9% increase
July 2010 12% increase

Central Boiler & Chilled Water Treatment Chemicals (Ecolab)
July 2007 52% increase
July 2008 90% increase

Fringe Benefits

MOSERS Contribution rates have increased 11.5% since FY 2009

FY2009	12.53%
FY2010	12.75%
FY2011	13.81%
FY2012	13.97%

Employee Insurance Package – the cost of the insurance package provided to full-time employees has increased from \$4414 to \$5483 since 2007. This 24.2% increase occurred despite reducing the coverage and changing insurance carriers to obtain a lower rate.

Analysis: Utility increases from FY09 to FY11 total over \$300,000, and are projected to continue to increase. MOSERS rate increases from FY09 to FY11 were 1.44% of payroll or an increase of approximately \$565,000. Costs covered by Truman to provide insurance for employees have increased 24.2% since 2007.

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

State support for Truman as appropriated and received peaked at \$44 million in FY2001. As the chart below indicates, since that year actual funding received has fluctuated and for FY2011, represents 94% of the level a decade earlier.

Operating Appropriation in millions

	<u>Appropriation</u>	<u>Actual</u>	<u>%Change</u>	<u>Indexed to Approp.</u>	<u>Indexed to Actual</u>
FY2001	\$ 45.4	\$ 44.0		100	100
FY2002	46.9	38.9	-11.6%	103	88
FY2003	42.1	39.4	1.3%	93	90
FY2004	39.8	38.6	-2.0%	88	88
FY2005	40.7	39.5	2.3%	90	90
FY2006	40.7	39.5	0.0%	90	90
FY2007	41.6	40.3	2.0%	92	92
FY2008	43.3	42.0	4.2%	95	95
FY2009	45.2	43.8	4.3%	99	99
FY2010	45.2	43.8	0.0%	99	99
FY2011	42.8	41.5	-5.3%	94	94

Excludes one-time appropriations such as Caring for Missourians

Tuition Policy – Truman’s mission as the public statewide liberal arts and science institution calls for affordable tuition. The University Board of Governors is very aware of the need to keep tuition costs as well as other costs such as room and board as economical as possible. Currently (2010-11 academic year) the tuition and required fees for a full-time undergraduate Missouri resident total \$6692. This places Truman in the middle of the 13 public four year institutions in Missouri in terms of costs and significantly below comparable independent institutions. External reviews of quality versus the cost of attendance continue to place Truman among the best values in public higher education.

Missouri Resident, Undergraduate Full-time Tuition Costs

2006-07	\$6092	
2007-08	\$6432	+5.3%
2008-09	\$6692	+4.0%
2009-10	\$6692	-0-
2010-11	\$6692	-0-

Includes all required fees including those approved by a vote of students

Analysis: During the past decade state support has dropped approximately \$2.6 million. Truman continues to be validated by external rankings such as US News, Princeton Review and Kiplinger’s Finance as a “best buy” in terms of quality and cost. During the last five years tuition increases have been minimal, averaging 2% per year.

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

There are several costs which require revenue increases which are in excess of the CPI during the last few years.

Health Insurance Costs by Calendar Year per Full-time Employee

		<u>% change</u>
2007	\$4414	--
2008	\$4710	+6.7%
2009	\$4710	--
2010	\$5124	+8.8%
2011	\$5483	+7.0%

Health Insurance costs for FY12 are projected at \$4.1 million, and have increased by \$1069 per employee, or 24.2% since 2007.

Faculty Starting Salaries – Starting faculty salaries at Truman have been low during the last decade. Due to salary freezes since July 2008, starting faculty salaries have become well below market. Examples of starting salaries for full-time 9-month faculty with appropriate terminal degrees such as a Ph.D. for 2010-11 include the following:

English	\$39,500
History	\$39,500
Biology	\$41,000
Chemistry	\$41,000
Nursing	\$46,000

Recent attempts to fill positions in fields such as Accounting and Communication Disorders have failed as the top candidates have rejected the offers. Inadequate starting salaries combined with projected faculty retirements have created recruitment issues in key academic departments. Several experienced faculty leaving Truman after this academic year accepted positions out-of-state at salaries 10-20% higher.

Analysis: Since 2007 health costs have increased 24.2% despite reductions in plan benefits. Costs covered by employees have also increased significantly due to higher co-pays, deductibles and prescription costs. At the same time faculty salaries have not been increased, making it very difficult to attract and retain the quality faculty needed to maintain Truman's mission.

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 the CPI.

Truman has responded to state initiatives including the desire to graduate more students in high demand fields such as the sciences, mathematics and the health sciences. In addition, the emphasis on foreign languages and study abroad at Truman supports Missouri's need for a wide range of professionals with the background necessary to be successful in a global economy. Areas of strength at Truman include the following.

Foreign Languages – All undergraduate majors are required to demonstrate elementary language proficiency in a foreign language. In Fall 2010, 40 percent of the undergraduates were enrolled in a foreign language course.

Mathematics – The mathematics and statistics program at Truman is very strong, with many majors requiring two statistics courses and calculus. In Fall 2010, mathematics and statistics enrolled over 2700 undergraduate students. In FY2009, Truman produced the largest number of undergraduate mathematics degrees among the state universities.

Sciences – The largest department at Truman in terms of student majors is Biology. In addition, Chemistry and Physics are popular and many students go on to medical, dental or veterinary schools or graduate study in the sciences.

Health Sciences – Through Caring for Missourians, Truman has committed to increase the number of nursing and communication disorders graduates.

All of these programs require investments in faculty as well as equipment and support services. Technology is another area where Truman has focused resources. Recent projects include the replacement and upgrade of the campus fiber optic backbone network at a cost of \$600,000 and the upgrade of 10 classrooms to become "smart classrooms" at a cost of \$300,000. These were internally funded initiatives.

The Health Sciences initiative has also required additional operating revenues. Although the new facility which will house our Nursing and Communication Disorder's programs was partially funded via the Lewis and Clark Discovery Initiative, it will result in higher operating costs. This 30,000 square foot facility will utilize additional utilities, requires more custodial support and has significant high-tech labs which require funding.

Analysis: Several initiatives underway at Truman designed to respond to statewide needs have resulted in expenditures which are in excess of general cost increases in recent years.

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.

Truman devotes most of its Education and General Budget (the budget supported by state appropriations) to Instruction and activities which support student learning. The chart below excludes auxiliary operations, which are not eligible for state support.

-millions-

<u>Budget by Area</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Instruction, Public Service & Research	\$41.1	\$42.1	\$42.6	\$40.8
Academic Support	6.6	6.5	6.3	5.7
Student Services	8.4	9.1	8.9	8.7
Institutional Aid	16.2	17.4	18.2	18.6
Institutional Support	7.7	8.1	7.8	7.4
Physical Plant	<u>8.9</u>	<u>9.2</u>	<u>9.3</u>	<u>9.3</u>
	\$88.9	\$92.4	\$93.1	\$90.5

Analysis: Despite reductions in resources, Truman has remained focused on instruction and areas such as academic support and student services. Institutional aid has also increased during this period.

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.**

Despite significant investments in its facilities over the last 15 years, Truman still has several critical facility and infrastructure needs. Many of these facilities are in danger of suffering irreparable damages due to lack of capital funds.

Baldwin Hall – Constructed in 1937 and 1957, this building houses several core programs and departments. The HVAC system is 53 years old and in summer 2010 several areas were closed due to mold issues. The roof on this structure is failing and will require replacement within two years. This facility houses several academic departments as well as the university auditorium.

McClain Hall – The HVAC system in this building is 34 years old and temperatures in classrooms and offices often reach the 90's. Due to the construction method used, only a total replacement of the HVAC system, ceilings and lighting system will address the problem. This building houses several administrative functions and seven academic departments.

Kirk Memorial – Built in 1940 this structure lacks central air conditioning and is served by steam radiators. Air conditioning is via window units.

Kirk Building – This 88 year old structure is in the central campus and has the original heating systems. It primarily houses student support services. The air conditioning is a combination of a 25 year old small system and numerous window units.

Power Distribution System – Most of the electrical power distribution network is 50 years old. Twenty (20) buildings are served by a high voltage system with distribution via tunnels and direct burial. This system should be replaced within 5 years.

Storm Water System – Numerous flooding incidents have occurred in 2008-10 due to having rains which overwhelm the campus storm water capacity. The current system was designed in the 1970's to handle "100 year" floods. Damages due to flooding in the last three years have cost in excess of \$200,000 after insurance.

Emergency Power Backup – Truman is the designated host for emergency housing in northeast Missouri. The only electrical power back-up available is a number of small diesel or natural gas generators installed in recent renovations that are designed to serve fire pumps, emergency lights, etc.

Analysis: Truman has several significant facilities which are in danger of becoming nonfunctional without several million dollars of repairs. Key structures such as Baldwin Hall and McClain Hall will require multi-million dollar investments in the next few years. Cost estimates for these projects have been included in Truman's annual capital improvement documents submitted to the MDHE.

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.

During the financial downturn Truman has focused on initiatives and investments which will reduce long-run operating costs.

Small Boiler Project – Truman invested \$1.4 million in local funds in 2010 to upgrade the central steam plant controls and add a new small boiler. Savings in natural gas and operating costs will result.

Energy Conservation Efforts – Truman recently received notification of approval for a modest (\$135,000) loan from the Missouri DNR Energy Revolving Fund. This will be utilized to replace old inefficient lighting and replace damaged insulation on steam pipes.

Demolition Projects – Approximately 31,000 square feet of space on campus was removed in 2010 by demolishing substandard buildings and consolidating several functions.

Utility Distribution Study – An internally funded engineering study was completed in 2011 to identify problems in the steam, chilled water and electrical distribution network and develop long-range plans to improve efficiency.

Renovation Projects – Renovation projects in auxiliary facilities (residence halls, etc) and academic buildings have focused on energy conservation including new HVAC systems, insulation and windows.

Positions Eliminated – 41 staff positions have been eliminated in the last 3 years via attrition. Five positions were also eliminated via layoffs. As a result, several administrative functions have been consolidated. This is approximately a 10% reduction in staff.

Early Retirement Incentive Program – An early retirement incentive was made available in 2009-10 which resulted in 13 Faculty retirements. On-going savings of approximately \$600,000 were realized. This program was repeated in 2010-11 and 6 faculty and staff were approved for the incentive. Net savings of approximately \$ 250,000 are projected from the second phase program.

Lines of Business Analysis – Truman has identified several business functions to analyze to identify efficiencies. Areas which have been addressed to date include photocopies (number reduced by 25%), credit card processing fees (cost reduced by \$200,000), mail services (cost reduced via improved training), printing services (losses eliminated), and student health services (insurance now processed by vendor). Lines of business currently under review include purchasing (joint effort with MU system), recycling, computer workstations, fleet vehicles, and travel. Major contracts with vendors – information technology services, food service and bookstore – are also being rebid or renegotiated in 2011 to identify potential savings.

Collaborative Efforts – Truman has actively pursued collaborative efforts with other Missouri institutions. This includes the shared services project with the University of Missouri System as well as agreements with Moberly Area Community College involving Truman's ROTC

program. Partnerships with private institutions of higher education including ATSU in Kirksville are also being developing to share resources.

Analysis: Truman has invested in projects designed to reduce energy costs and has reduced the size of the faculty and staff via attrition and retirements. The campus continues to analyze business functions to identify more cost effective approaches so that resources can be focused on activities which support student learning.

9. Summary of Request

There are several cost factors, combined with the recent reductions in state appropriations, which led Truman's Board of Governors to increase tuition for the 2011-12 academic year. The actual appropriation for FY11 is \$2,350,000 below FY10, and the projected appropriation for FY12 calls for an additional \$3,021,000 reduction for a total cut of \$5,371,000. During this same period cost increases for utilities (+\$300,000), insurance (+\$540,000) and retirement (+\$565,000) total over \$1.4 million. This leaves a funding gap of over \$6.7 million in the operating budget.

Numerous measures have been taken to reduce this gap, including a 10% reduction in staff positions, an early retirement program targeted for faculty, and collaborative initiatives with other institutions. Internal reallocations have been made to maintain academic quality, and business processes have been tightened to reduce costs. Despite these actions, without a tuition increase, Truman faced a \$3.8 million shortfall for FY12. The tuition increase for 2011-12 is projected to generate \$1,550,000. Thus, there is still a deficit to be covered by additional internal reallocations and further reductions in programs or staff.

Without this increase in tuition, it would be necessary to layoff several faculty and staff as well as reduce critical services such as the library and instructional technology. A large increase in tuition (approximately 11%) would cover this gap, but on the other hand the administration and Board of Governors felt it was important to remain as affordable as possible. Even with the modest increase in tuition, key issues such as faculty salaries and maintenance and repair of facilities will be difficult to address.

Based upon this analysis, the 4.7% increase in tuition for Missouri undergraduates was developed to partially offset appropriation cuts and cost increases, while keeping Truman as affordable as possible for students.