



March 4, 2011

Dr. David Russell
Commissioner of Higher Education
Missouri Department of Higher Education
P.O. Box 1469
Jefferson City, MO 65102-1469

Dear Commissioner Russell:

In your March 2, 2011 email to me, you requested additional information on two items included in the University of Missouri Request for Waiver of Penalty. Below is the additional information requested:

1. Issue: In your request you address the growing need for funds to address accumulating maintenance and repair projects. I believe that you indicate that Maintenance and Repair is being treated as a mandatory cost increase on the order of \$31.2 million for FY12. This is driven in part by a decision to increase the investment in M&R from 1.0% to the policy level of 1.5% of plant replacement value in FY12. Was any consideration given to phasing in the ramp-up from 1.0% to 1.5% over more than one year, thus reducing the funds needed by several millions of dollars and enabling you to reduce tuition rates below the 5.5% threshold? An explanation of the dynamic between the two areas would be helpful.

Response: The 1.5% number for maintenance and repair (M&R), renewal, adaptation to current standards, and modernization is not a "ramp-up" from 1.0%. It has been the targeted budget number since 1994 and is based on minimum industry standards recommended by the Society for College and University Planning (SCUP) and the Association of Physical Plant Administrators of Universities and Colleges (APPA). In years when state appropriations were inadequate, the university has been forced to adjust the 1.5% target below industry standards in order to balance the budget. Although increased funding for this purpose has been requested annually as part of the university's annual appropriation request, additional funding has not been forthcoming. As a result, since 2003, the university has spent \$160 million less than the minimum requirement to keep up its facilities. The impact is greater than \$160 million because as facilities deteriorate the problems and the cost grow. Because of the continued under-investment in on-going maintenance, repair, adaptation and renewal, the backlog of deferred maintenance and repair, adaptation and modernization needs have grown today to \$1.0 billion.

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About one third, or \$11 million, of the \$31.2 million in the FY2012 budget planning reflects inflationary and valuation increases in the replacement cost, and the additional investment needed to sustain a 1% expenditure level. The other two-thirds, or \$20 million, is the cost of the additional .5% to get up to a minimum investment of 1.5% of the plant replacement value. The budget gap for the campuses with a 7% reduction in state support, and before factoring in tuition and required fee increases, is \$71.5 million. The proposed rate changes for tuition and supplemental fees, including the 5.5% average increase in tuition undergraduates for undergraduates, would only generate approximately \$29.5 million after financial aid. Even with the increases in tuition and required fees the university still has a budget gap of approximately \$42 million. If the additional \$20 million to increase investment in M&R to 1.5% of the replacement value is eliminated entirely, the university will still have a budget gap after the tuition increase of over \$20 million for FY2012; and if the additional investment in M&R to 1.5% is phased in over a period of years, the budget gap will be even greater for FY2012.

2. Issue: In your request you state that, "campuses are committing 20% of new revenue from tuition and fee increases to additional financial aid for our neediest students." Could you provide more detail to support this statement? Specifically, I am interested in whether or not this additional aid is going solely to these neediest students; how you determine which students are the neediest; and what mechanism is in place to track these funds to ensure that they are distributed on the basis of need."

Response: Standard practice for the University of Missouri campuses is to budget a portion of any tuition increase for financial aid to offset the impact of the increase on students with documented financial need. On average, this amounts to approximately 20% of the increase in tuition. Each campus uses the FAFSA to determine student financial need and the "neediest students" have historically been defined as those with family incomes of \$40,000 or less, although there are a growing number of middle income families with incomes between \$40,000 and \$80,000, for whom college affordability has become a challenge given the increases in tuition in response to reductions in state support. Each campus sets the amount of need that will be met with grant aid vs. loans and work. The total grant aid is funded from a combination of institutional, state, federal, and private sources. There are a number of factors that affect the amount of need-based grant aid from institutional sources awarded to a student, including the number of students that enroll, the level of their need, the amount of merit aid, and the other sources of grant aid. As you know, both state need based aid and merit aid as well as federal need based aid continue to fluctuate and are unpredictable. While the 20% will be targeted at the "neediest students", the resources could also be used to support students in the \$40,000 to \$80,000 cohorts depending on other available grant aid.

At MU and Missouri S&T, grant aid (the combination of merit-based and need-based aid from all sources) for the "neediest students" is approximately equal to total tuition and required fees. In FY2010, the percent of tuition and required fees covered by

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grant aid was 93 to 94% and 102 to 104% on average, respectively. At our two urban campuses, St. Louis and Kansas City, the percent of tuition and required fees covered by grant aid is lower, but still substantial at 61% and 78 to 84% on average, respectively. Our campuses are committed to trying to continue to provide grant aid at these levels or better. We estimate that approximately \$3.1 million will be generated for this purpose from the 5.5% increase in tuition and required fees charged to Missouri resident undergraduate students and approximately \$4.7 million from tuition charged to all undergraduates.

Because financial aid packaging is a complicated process, we do not further complicate it by separately tracking each year's marginal increase in budgeted institutional grant aid to identify up front how it is being awarded to specific students. Rather, we complete a comprehensive financial aid study bi-annually that documents who gets aid, what kind of aid they receive and in what amounts. These studies are available for your review at <http://www.umsystem.edu/ums/departments/fa/planning/financialaid/management/index.shtml>. The most recent study was completed this past fall and documented financial aid for FY2010 and the trends in aid over the past five years. Management uses this report and other institutional research to track how aid is being awarded.

I trust that the above information addresses your questions. As I indicated in the transmittal letter that accompanied the original waiver request, we are rapidly approaching the critical timeframe for packaging financial aid for new students as well as returning students and for registering and billing returning students for the summer and fall semesters. If there is any additional information you need, please let us know as soon as possible so we can work together in a timely way to meet the needs of our students.

Thank you again for consideration of our request.

Sincerely,



Stephen J. Owens
Interim President

c: Vice President Natalie "Nikki" Krawitz
Acting General Counsel Phil Hoskins