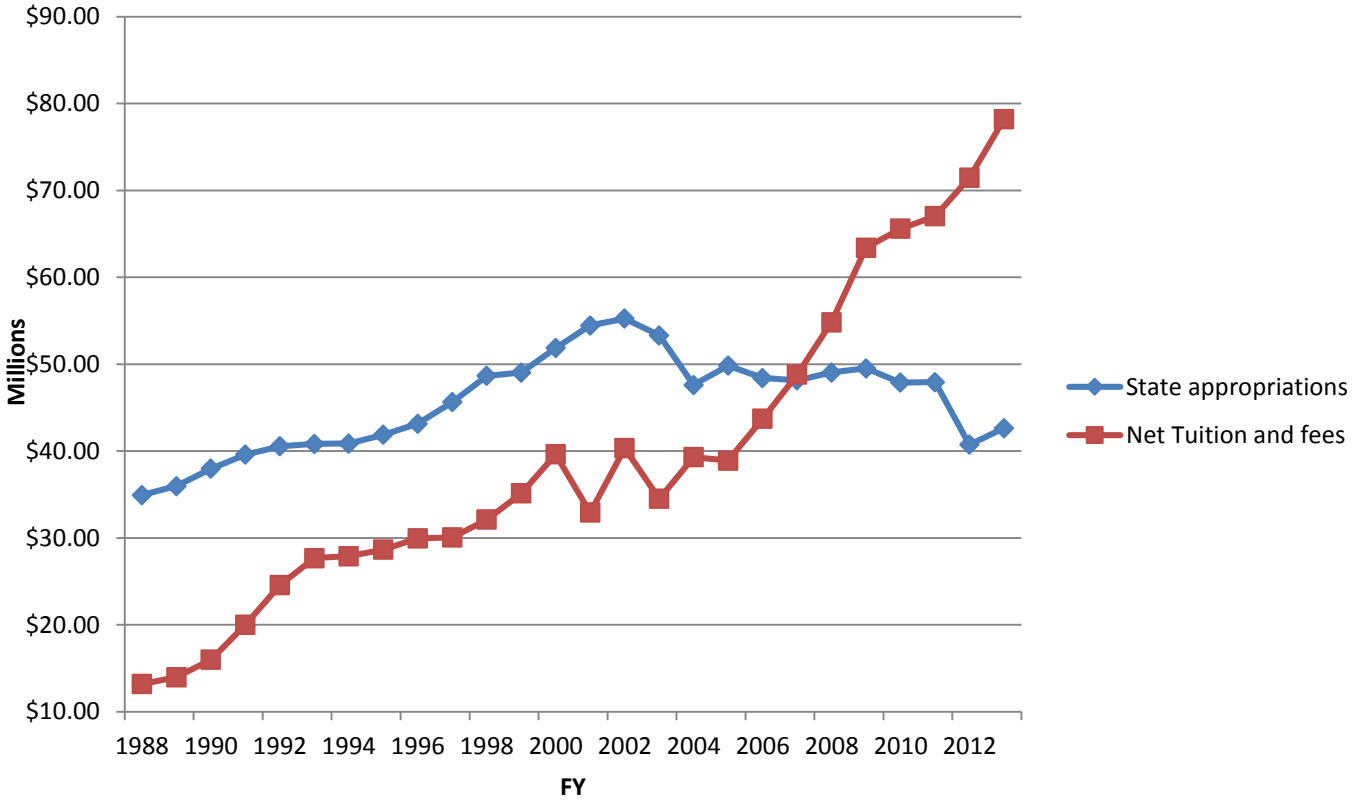
MTU Financial overview

April, 2014

A report from the University Senate Finance committee

In the face of declining state appropriations, tuition and fees have been increasing rapidly since 2003. FY2013 reported for adjusted basis.*



*Net tuition and fee revenues have been readjusted starting in FY2013 in the audited financial statements. (e.g. FY2012 adjusted from $71M to $77M with the difference in auxiliaries.)

Data submitted to the state by Michigan's 15 public universities. On average, the schools raised spending on administrators 30% in the last five years. Table gives figures for the 2009-10 school year, the most recent available, and the growth in pay since the 2005-06 school year. (*Detroit Free press, March 27, 2011)*

School	Faculty pay	Pct. change	Admin. pay	Pct. change	Tuition	Pct. change	Enrollment	Pct. change
Central Michigan	$98,998,270	23.8	$53,369,565	30.1	$10,065	51.6	24,799	1.0
Eastern Michigan	$90,447,191	17.4	$58,810,555	19.8	$8,399	20.7	22,614	- 3.6
Ferris State	$65,734,924	23.7	$32,259,859	25.5	$9,930	37.9	13,865	10.7
Grand Valley	$96,640,633	31.1	$48,145,695	48.4	$9,314	37.9	24,408	8.2
Lake Superior State	$11,566,059	14.3	$6,051,958	35.7	$8,795	30.6	2,564	- 12.2
Michigan State	$341,407,073	22.8	$259,440,361	41.2	$11,670	31.3	46,504	3.0
Michigan Tech	$47,859,939	27.2	$29,698,953	41.8	$13,007	34.6	7,140	9.7
Northern	$34,555,761	21.9	$16,616,148	26.4	$7,728	24.9	9,428	- 0.8
Oakland	$64,860,814	25.5	$43,295,289	40.5	$9,716	0.4	18,920	9.1
Saginaw Valley	$32,743,099	23.3	$18,289,116	21.6	$7,308	31.8	10,498	9.7
U-M Ann Arbor	$459,900,746	18.2	$366,092,401	26.9	$12,590	21.7	41,484	4.2
U-M Dearborn	$37,324,982	27.5	$24,648,856	22.3	$9,575	27.4	8,642	0.3
U-M Flint	$27,710,303	33.0	$21,834,520	41.2	$8,656	24.6	7,714	20.1
Wayne State	$195,420,398	29.9	$121,282,814	14.8	$9,732	32.4	31,777	- 4.1
Western	$120,587,797	10.8	$44,209,187	18.2	$9,510	30.9	24,509	- 6.6

Full time in-state undergraduate tuition at Michigan Tech

2011-2012	$12,615	(Fact book)
2012-2013	$13,095	(Fact book)
2013-2014	$13,470	(Fact book)
2023-2024	$25,500	(if extrapolated at last 5 year average rate)

Average annual net price to undergraduate students, 2011–2012*

(Including financial aid, discounting, etc. – source: National Center for Education Statistics)

Midwestern Public Universities

Michigan Tech	$16,045 (highest in Michigan)
University of Michigan – Ann Arbor	$14,490
Michigan State	$13,836
Western Michigan	$14,610
Northern Michigan	$11,320
University of Wisconsin	$15,317
University of Illinois –Urbana - Champaign	$16,495
University of Minnesota – Twin Cities	$14,516

* Full-time beginning undergraduate students who paid the in-state or in-district tuition rate and were awarded grant or scholarship aid from federal, state or local governments, or the institution.

Non-resident graduate tuition rates are among the *lowest* of all STEM schools

(source financial aid office)

Current Graduate tuition $14,991/2 semesters. (In or out-of-state)
Undergraduate in-state 2012 $13,470/2 semesters.
Undergraduate out-of-state 2011 $28,350/2 semesters.

Raising non-resident graduate tuition to peer average $1100/credit yields approximately +$5M/year.

Graduate School	Non-resident cost per credit* (AY13)	Graduate School	Non-resident cost per credit (2012)
Michigan Tech	*$789*	University of Wisconsin	$1622
University of Michigan	$2332	Georgia Tech	$1688
Wayne State	$1363	Virginia Tech	$1230
Michigan State	$1180	Minnesota -Duluth	$1915
Western Michigan	$1052	University of Minnesota	$1915
Texas A&M	$930	Purdue	$988
University of Illinois	$1397	Louisiana Tech	$753* ‡quarter basis

* Masters in engineering where applicable.

How much do employee/faculty costs drive the tuition increase?*

Michigan Tech's retirement obligations – MPSERS (10 percent of payroll) obligation is outgrowing TIAA-CREF. Currently it is over 50% of the total retirement obligation.

(audited financial statements)

2009 MPSER obligation	$4.87 million	2009 TIAA-CREF obligation	$7.92 million
2010 MPSER obligation	$4.67 million	2010 TIAA-CREF obligation	$7.17 million
2011 MPSER obligation	$5.14 million	2011 TIAA-CREF obligation	$5.96 million
2012 MPSER obligation	$5.76 million	2012 TIAA-CREF obligation	$6.15 million
2013 MPSER obligation	$5.72million	2013 TIAA-CREF obligation	$5.56 million

Medical benefit claims paid by Michigan Tech have grown just 14% (CPI adjusted) since 2006. *Since 2008 there has been 6% decrease (CPI adjusted).* The majority of the actual increase in healthcare costs have been paid by those covered. (FY basis - audited financial statements)

2006	$10,984,366
2007	$12,041,986
2008	$13,875,743
2009	$13,980,633
2010	$14,310,670
2011	$14,748,919
2012	$15,735,827
2013	$14,377,991

*there was a net decrease in total benefits paid by ~$2.3M from FY2012 to FY2013 (pg. 20 of the FY2013 audited financial statement)

Total employee benefit costs to Michigan Tech are up slightly since 2006.

Up 4.5% (CPI adjusted) since 2006, however the *number of employees is up by ~18% over same period.*

Benefits down 1.7% (CPI adjusted) since 2008. (audited financial statements, cash flow basis)

2006	$28,901,300
2007	$31,010,000
2008	$35,802,819
2009	$35,859,251
2010	$34,709,950
2011	$35,124,359
2012	$37,803,478
2013	$34,740,933

Average total compensation and benefits *per* instructor.

Increased 5% (actual dollars) since FY2006 (-10% CPI adjusted), due to small raises, benefit cuts, and lower cost structure (more junior faculty, lecturers, etc.) Current fund expenditures are up 45% (25% CPI adjusted) over the same period. (sources: audited financial statements & compendium)

FY	*Instructional Compensation & Benefits*	General Fund Instructional Expenditures	Unrestricted current fund expenditures	Tenure/Tenure track faculty	Non-tenure track faculty
2006	$38,559,398	$44,317,174	$140,827,244	312	11
2007	$39,975,030	$45,879,482	$151,679,361	317	10
2008	$43,292,487	$49,316,020	$166,313,946	310	48
2009	$46,729,720	$53,425,533	$179,326,092	312	55
2010	$47,987,133	$54,767,561	$187,242,616	329	57
2011	$47,812,865	$54,713,867	$191,434,074	342	58
2012	$47,866,389	$55,128,119	$198,550,847	354	56
2013	$50,538,540	$57,426,523	$199,634,657	348	56

How about institutional costs?

Total Debt

Total debt increased at $7M/yr. *($10M/yr. including interest)* over last decade (Audited financial statements). This is a chiefly a result of bonded debt that has been issued since 2003. *Debt outstanding as of June 30, 2012 is $84M, and the combined principal and interest are approximately $135M*. We now spend $5-6M/year on debt service; a portion of which may be associated with revenue lines (e.g. residence halls).

2002	$ 11,396,000
2003	$ 17,198,000
2004	$ 51,023,286
2005	$ 50,274,702
2006	$ 49,517,956
2007	$ 51,131,794
2008	$ 50,904,532
2009	$ 56,112,688
2010	$ 73,113,673
2011	$ 82,496,244
2012	$ 84,516,392
2013	$ 85,711,936

Costs of expanding and maintaining our physical plant.

Increase of over 900,000sq. ft. over last 20 years (@$5 to $7/sq ft per year maintenance).
Approximately 100 sq. ft. added per person (students, staff, faculty) on campus.

M&M	217,200
Dow	167,000
Rosza	80,000
Little Huskies	4,400
Forestry expansion	48,000
Lakeshore Center	50,000
Mineral Museum	9,000
Rehki building	51,000
Opie Library	54,000
Hillside Place	75,000
ATDC	27,500
Great Lakes Research Center	49,500
Blizzard building	55,000
Alternative energy center	4,000
KRC, Engineering design center	11,000
Miscellaneous (Gundlach, etc.)	14,600
Total additional space	907,000 square feet

Academic support is up over the past few years

($10.7M in FY2006 to $15.3 M in FY2013)

Academic support includes: (1) Library operations, (2) Academic IT, (3) CTLF, (4) marketing and communications, (5) corporate relations and intellectual property, (6) research services, (7) the graduate school, (8) learning centers.

Institutional support *

(Audited financial statements)

Institutional support includes (1) central executive-level activities concerned with management and long-range planning of the entire institution, such as the governing board, planning and programming, and legal services; (2) fiscal operations, including the investment office; (3) administrative data processing; (4) space management; (5) employee personnel and records; (6) logistical activities that provide procurement, storerooms, safety, security, printing, and transportation services to the institution; (7) support services to faculty and staff that are not operated as auxiliary enterprises; and (8) activities concerned with community and alumni relations, including development and fund raising.

2006	$18,027,340
2007	$20,858,727
2008	$24,364,292
2009	$28,393,021
2010	$27,429,468
2011	$29,045,690
2012	$32,570,634
2013	$16,022,546

*As of FY2013 there was a major re-categorizing of some expenditures (e.g.- as institutional support, student services, or operations instead of academic support). The combined growth is in excess of 40% over this period (17% CPI adjusted).

Can Research Dollars Help MTU's Finances? *

External dollar expenditures are up 66% over 11 years. (2.5%/year CPI adjusted).
Internal and external research expenditures (source: compendium & NSF)

2002	External	$22.79 M
	Internal	$7.21 M
2004	External	$23.88 M
	Internal	$11.79 M
2006	External	$24.25 M
	Internal	$19.95 M
2008	External	$36.16 M
	Internal	$24.20 M
2010	External	$34.49 M
	Internal	$28.98 M
2012	External	$39.07 M
	Internal	$32.92 M
2013	External	$37.94 M
	Internal	$32.75 M

Internal research expenditures are up >450% since 2002 (>20%/year CPI adjusted), *46% of total expenditures.*

Internal research expenditures include: IRAD, general fund salaries charged to research, start-up funds, cost share, Graduate Assistant Cost Share (GACS), Indirect costs (Facilities & Administrative F&A) on cost share and waivers of indirects (F&A) on sponsor funds, research related gifts, use charges & SURF Fellowships.

* This has not gone unnoticed, in the May 13, 2011 issue of *The Chronicle of Higher Education* published a front-page story entitled "The Research Drain: As universities ante up more of their own money, many still slip in federal science ranking." An accompanying feature (page 3) highlights Michigan Tech as one such institution.

HLC composite financial index (CFI)

The Higher Learning Commission (HLC) accredits degree granting colleges and universities. A CFI of 1.1 or higher = adequate financial health and no HLC review. A CFI below 1.1 = possible HLC review.

Accreditation criteria include whether "resources are sufficient to fulfill its mission, and respond to future challenges and opportunities". An annual Composite Financial Index (CFI) is calculated annually to evaluate the sufficiency of institutional resources.

Combination of 4 financial ratios, each weighted as follows:

- Primary Reserve Ratio (35%) – Net assets/operating and non-operating expenses.
- Viability Ratio (35%) – Net assets/Long term debt.
- Return on Net Assets Ratio (20%) – Change in net assets/total assets.
- Net Operating Revenues Ratio (10%) – Net operating income (loss)/total revenues.

Higher Learning Commission – Composite Financial Index

	FY2013	FY2012	FY2011
Primary reserve ratio	0.36	0.30	0.35
Viability ratio	0.98	0.81	0.94
Return on Net assets ratio	0.94%	0.50%	5.68%
Net operating revenues ratio	-1.21%	-7.70%	0.35%
Composite financial index	1.8	1.1	2.3

Paths Forward?? Lots of options, but no easy solutions.

More undergraduate tuition increases?

- •Market price elasticity uncertain by program, non-STEM degrees are under increasing pressure.
  - •Separate upper and lower division tuition.
  - •Set tuition by program.
- •State restrictions on tuition increases.
- •Student debt crisis. Average MTU student graduates with >$30K in debt.

Reduce both tuition and tuition discounting?

- •Discounting currently very high (40%), reduce discounting to peer and regional levels (30%).
- •Attract more students with lower "sticker" price.
- •Good publicity with public.
- • Good will with state legislature.

Match market prices for graduate education?

- •Now need 2 non-resident grad students to generate tuition of 1 non-resident undergrad.
- •Increasing graduate tuition to market price nets additional $4-5M/year.
- •Loss of competitiveness in grants and declines in graduate enrollment?

Adjustments in compensation?

- •Levels consistent with strategic plan? (Michigan Tech falling *far* behind averages in senior faculty ranks).
- •Benefits have already been cut more than any other major component of the budget. Cuts in benefits are extremely regressive, lower paid employees are already hit hardest.
- •MPSER obligation relief. (We send almost 13% of state appropriation back.)

Restrict new debt and/or refinance current debt?

- •Recent board actions have repackaged ~60% of bond issues, but added costs (e.g. >$1M for SDC upgrades).
- •Post-pone additional new buildings. New capital outlays from state for FY2014? Renovate instead?

Redesign academic programs?

- •Carefully evaluate finances of new programs, assess finances of programs added in recent years.
- •Pursue collaborative opportunities. (e.g. co-list courses across curriculum, collaborative Ph.D. programs, etc.)
- •Further enhance center approach to research, and promote regional partnerships initiatives

Increase University Endowment to Level of Peers