Addendum #1
9-06

Long-term Tuition Proposal from Dr. Douglas Roberts

I would like to share some thoughts on a potential long term tuition policy for NMU. It is my position that tuition changes at NMU should balance the three major stakeholders: the students, employees (faculty and staff) and the taxpayers.

The proposal assumes:

1. That a long term policy is superior to a short term policy.
2. That changes in tuition should be easy to explain and easy to justify.
3. That a tuition policy should recognize inflation, the need for growth and the increase in state appropriations
4. That tuition policy should be directly dependent on a long term revenue policy.

My proposal is to set a long term revenue policy for NMU. The proposal would provide that each year the percent increase in the total general fund budget will equal the percent increase in inflation plus one percent for growth. (The sum of inflation plus one percent will be the target number) The inflation rate for calendar 2005(US CPI) was 3.4%. The policy would state that the budget for FY 2006-07 would be 3.4% plus 1% which equals 4.4%. (Inflation plus one percent)

Tuition increases should take into consideration the percentage change in state appropriations, the inflation rate and growth. Remember, state appropriation equals about 50% of the total revenue and tuition equals about 50%. If state appropriation increases by 4.4% than tuition should be increased by 4.4%, this would result in total revenue increasing by 4.4%. If state appropriation increases by 2.0% than tuition would have to increase by 6.8% in order for the total revenue to equal the target number of 4.4%.

The tuition policy would be: if the state increases state appropriation by the rate of inflation plus one percent NMU will increase tuition by the same percentage. If however, the legislature appropriates less than inflation plus one percent, the tuition will be raised such total revenue will be increased to the target amount.

I could explain to any student or parent that it is the policy of NMU to increase tuition by ONLY inflation plus one percent PROVIDED the state legislature increases state appropriation by the same percentage. Failure by the state to provide such a percentage will result in higher tuition increases.

In my opinion, NMU will not receive state aid equal to inflation plus one percent in the near future. If this is correct NMU will have to increase tuition in order to maintain a quality institution. The proposed policy sets the stage for a long term defense of future tuition increases and the rationale for such actions.

Table of hypothetical tuition increases
Target number is 4.4%

State appropriation increase	Proposed tuition increase	Total revenue increase
0%	8.8%	4.4%
1%	7.8%	4.4%
2%	6.8%	4.4%
3%	5.8%	4.4%
4%	4.8%	4.4%
4.4%	4.4%	4.4%

In this discussion the growth factor was assumed to be 1%, the same concept could be used and the growth factor could be reduced to one half of one percent. In the above chart the total revenue increase would be reduced to 3.9%. The tuition increase, assuming 2% from the state, would be 5.9%.

Background

Inflation: 3.4%
Growth factor: ½ of 1% to 1%
State Appropriation: 1.8% to 2.5%
It is my understanding NMU ended FY 2005-2006 with a one million dollar surplus. One million dollars equates about two full percentage points in tuition.

Proposal:

I propose that total revenue be increase by inflation plus one percent:
3.4% + 1% = 4.4%

I propose that we assume a state appropriation of 2%. If state appropriation is only 1.8% the surplus could be used.

Therefore, in order for total revenue to increase by 4.4%, tuition will need to increase by 6.8%.

I propose that tuition be increased by 6.8%.

I also propose that the following language be adopted: (my thanks to Mary Lukens on the wording)

"The goal of NMU tuition policy is to sustain quality education and provide for growth. To achieve this goal, it is determined that our tuition policy should be tied to inflation, the state appropriation and growth. It shall be the overall policy to increase total general fund revenue by inflation plus one percent. Because one half of our funds come from state appropriations, the tuition policy must consider the increase in state appropriations. If state appropriations increase by inflation plus one percent, then NMU will increase tuition by the same percentage. If, however, the legislature appropriates less than inflation plus one percent, NMU's portion of the tuition will be raised to supplement the state appropriation so that our total revenue will be increased to equal the rate of inflation plus one percent."

Given that NMU has a one million dollar surplus we could reduce the 6.8% by one percentage point to 5.8% and still have one half million remaining.

Doug

Policy Discussion: Long Term Revenue and Tuition
Board of Trustees
Northern Michigan University
October 2006

Dr. Roberts' Proposal

Tuition changes at NMU should balance the interests of the three major stakeholders: 1) students, 2) employees (faculty and staff), and 3) taxpayers.

Assumptions

- A long term policy is superior to a short term policy
- Changes in tuition should be easy to explain and justify
- A long term policy should recognize inflation, the need for growth, increases in state appropriations, directly dependent upon a long term revenue policy

Long Term Revenue Policy

The proposed Long Term Revenue Policy would encompass that each fiscal year the percent increase in the total General Fund budget will equal the percent increase in inflation plus one percent for growth.

For example: The U.S Consumer Price Index inflation rate for calendar year 2005 was 3.4%. The policy would state that the budget for FY 2006-07 would be 3.4% plus 1%, which equals 4.4%.

Long Term Tuition Policy

Based on the proposed Long Term Revenue Policy the following tuition increases should be taken into consideration:

- percentage change in state appropriations
- inflation rate
- growth

The relationship between state appropriation and tuition would be a key element in any Long Term Tuition Policy. Northern's state appropriation equals approximately 50% of the total General Fund revenue, while Northern's tuition equals approximately 50% of the total General Fund revenue.

If the Long Term Revenue Policy sets the revenue increase at 4.4%, and NMU's state appropriation increases by 4.4%, then tuition should be increased by 4.4% thereby increasing total General Fund revenue by 4.4%.

However, if state appropriation increases by 2.0%, then tuition would have to increase by 6.8% in order for the total revenue to equal the target number of 4.4%.
The proposed tuition policy would set tuition based on the following:

- If the state increases state appropriation by the rate of inflation plus one percent, NMU will increase tuition by the same percentage.
- If the legislature appropriates less than inflation plus one percent, the tuition will be raised such that the General Fund total revenue will be increased to the target amount.

Proposed Long Term Tuition Policy

The goal of an NMU long term tuition policy is to sustain quality education and provide for growth. To achieve this goal, it is determined that our tuition policy should be tied to inflation, the state appropriation, and growth. It shall be the overall policy to increase total general fund revenue by inflation plus one percent. Because one half of our funds come from state appropriations, the tuition policy must consider the increase in state appropriations. If state appropriations increase by inflation plus one percent, then NMU will increase tuition by the same percentage. If, however, the legislature appropriates less than inflation plus one percent, NMU's portion of the tuition will be raised to supplement the state appropriation so that our total revenue will be increased to equal the rate of inflation plus one percent.

Questions/Comments for Discussion

Market Factors

A tuition policy is how a university prices its primary services. Should the proposed tuition policy address market factors, such as peer institution pricing and parent/student price sensitivity?

Financial Aid

A portion of tuition and fees is returned to students in the form of General Fund financial aid.

Should General Fund financial aid be considered?

Inflation

The proposed policy ties future tuition and fee increases to changes in inflation.

What inflation index should be used?

- Consumer Price Index (CPI)
- Higher Education Price Index (HEPI) (see attached Commonfund Institute documents)

Between 1961 and 2006 the annual rates of inflation for both indexes have fluctuated significantly. CPI's lowest annual percentage increase was 1% and the highest was 13.3%. HEPI's lowest annual percentage increase was 2.4% and the highest was 10.7%

Would the proposed revenue and tuition policies result in desired outcomes during periods of high inflation or extremely low inflation?

Growth

The proposed policy includes a 1% factor for growth.

How would a major initiative that exceeds the 1% growth factor be addressed under the policy (e.g., the TLC Program)? The year in which NMU instituted the program tuition and fees were raised by 28%.

State Appropriations

Between 1977 and 2006 changes in NMU's state appropriation have fluctuated significantly; with an increase high of 14.1% in 1978 and a 14.5% decrease in 2004.

Would the proposed policy work during periods of very high increases or decreases?

Other

How would General Fund carryovers, positive or negative, be incorporated into the proposed policies?

How would changes in enrollment be treated?

Is the intent of having a tuition policy to actually set tuition through use of a formula?

Would the proposed tuition policy apply to all types of tuition and fees – undergraduate, graduate, continuing education, non-resident?

Calculation of tuition and fees FY 2002-2007 based on proposed policies

The following charts and graphs illustrate how the proposed Long Term Revenue and Tuition policies might impact tuition. Two different models are presented: 1) Total General Fund Revenue per FYES and 2) Total General Fund Revenue.

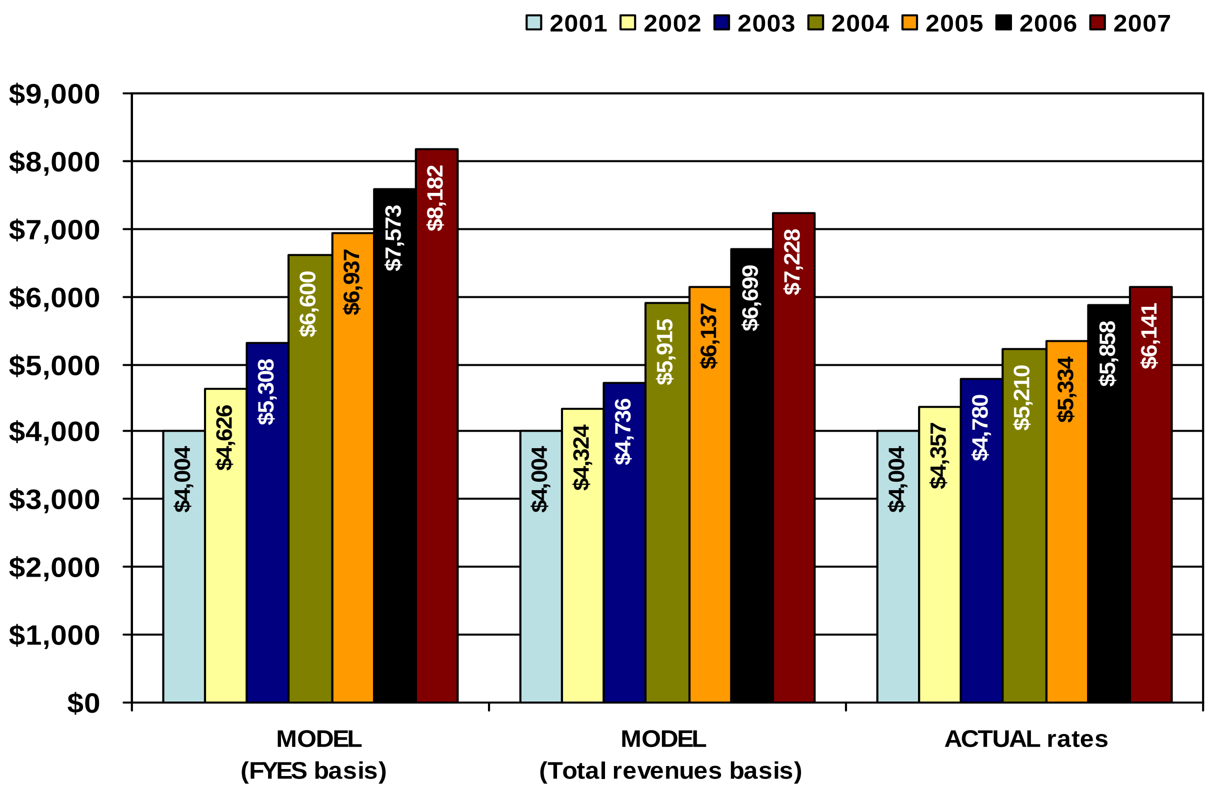
Annual Tuition and Fees under Proposed Model (Information summary sheet)

Fiscal Years 2001 through 2007

	Base Year 2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
CPI + 1%		*4.2%*	*2.1%*	*3.1%*	*4.3%*	*3.5%*	*5.3%*
ACTUAL -- FYES	*7,396*	*7,718*	*8,047*	*8,305*	*8,424*	*8,557*	*8,643*
% Change		*4.4%*	*4.3%*	*3.2%*	*1.4%*	*1.6%*	*1.0%*
MODEL -- TOTAL REVENUE PER FYES CHANGE	$11,123.5	$11,590.7	$11,834.1	$12,201.0	$12,725.6	$13,171.0	$13,869.1
		4.2%	*2.1%*	*3.1%*	*4.3%*	*3.5%*	*5.3%*
APPROPRIATION PER FYES	$6,930.7	$6,739.2	$6,281.3	$5,354.7	$5,517.3	$5,307.2	$5,368.4
% Change		*-2.8%*	*-6.8%*	*-14.8%*	*3.0%*	*-3.8%*	*1.2%*
MODEL -- Tuition and fees rates (FYES basis)	$4,004.0	$4,626.0	$5,308.0	$6,600.0	$6,937.0	$7,573.0	$8,182.0
% Change		*15.5%*	*14.7%*	*24.3%*	*5.1%*	*9.2%*	*8.0%*
MODEL -- Tuition and fees rates (Total revenues basis)	$4,004.0	$4,324.0	$4,736.0	$5,915.0	$6,137.0	$6,699.0	$7,228.0
% Change		*8.0%*	*9.5%*	*24.9%*	*3.8%*	*9.2%*	*7.9%*
ACTUAL -- Tuition and fee rates	$4,004.0	$4,357.0	$4,780.0	$5,210.0	$5,334.0	$5,858.0	$6,141.0
% Change		*8.8%*	*9.7%*	*9.0%*	*2.4%*	*9.8%*	*4.8%*

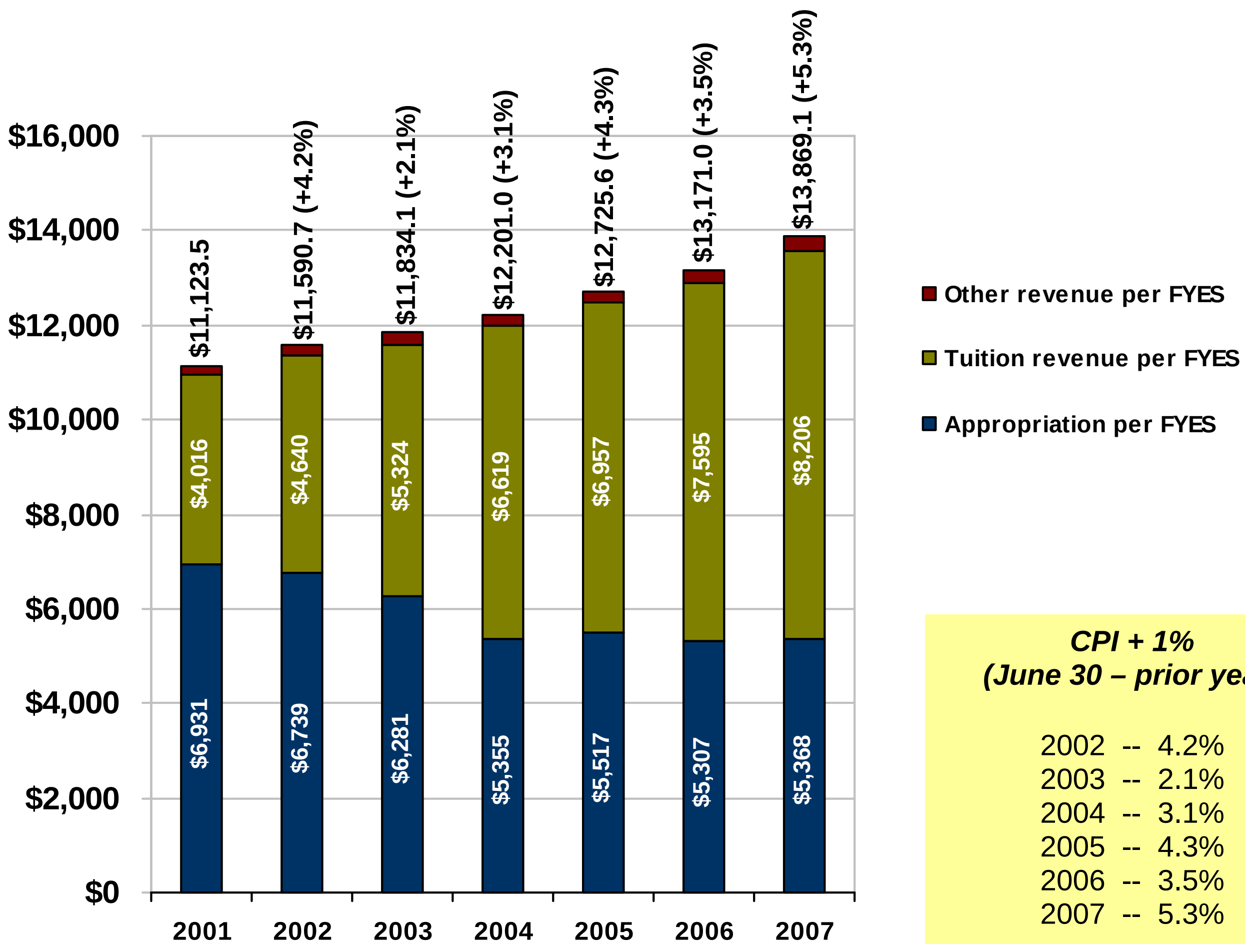
Annual Tuition and Fees under Proposed Model Comparison
(Grouped by Model)

Fiscal Years 2001 through 2007



MODEL -- Total Revenue per FYES
(FYES Model)

Fiscal Years 2001 through 2007



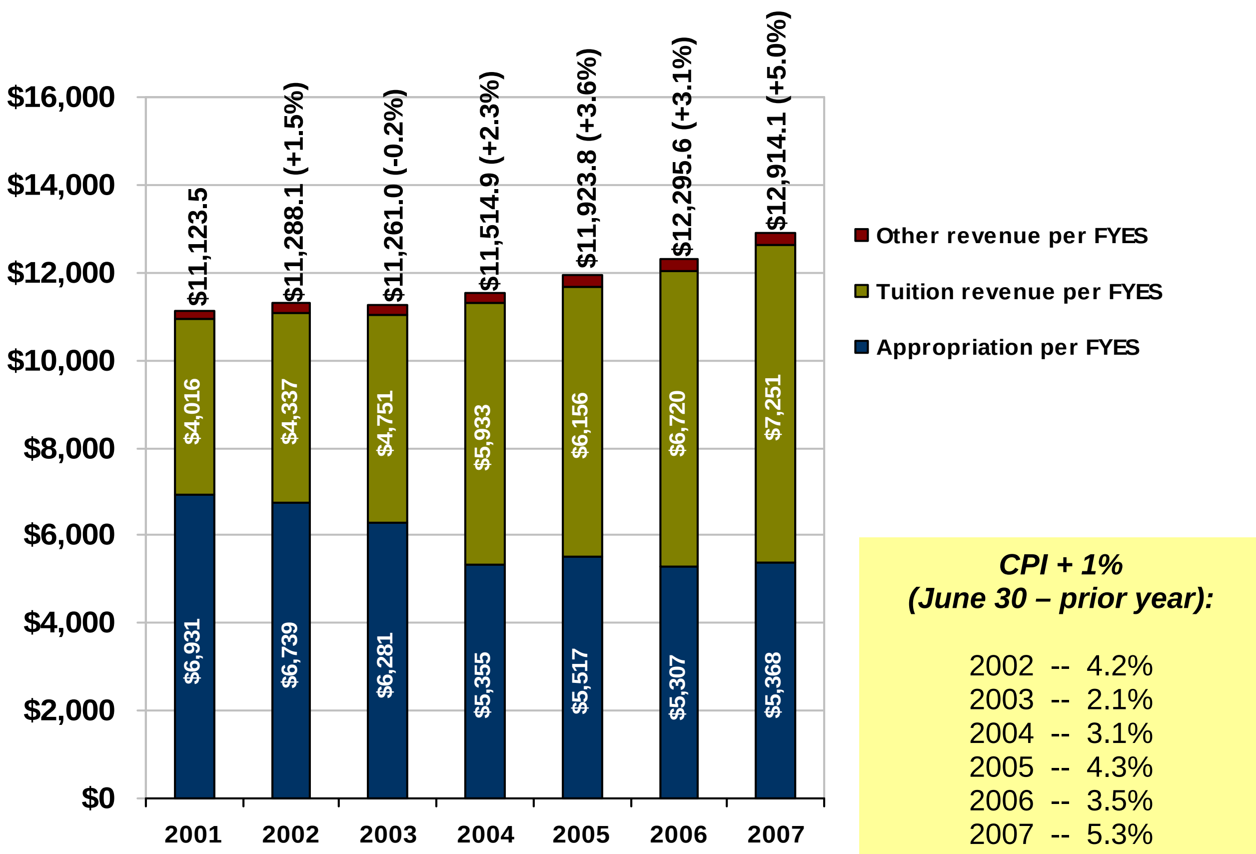
CPI + 1%
(June 30 – prior year):

2002 -- 4.2%
2003 -- 2.1%
2004 -- 3.1%
2005 -- 4.3%
2006 -- 3.5%
2007 -- 5.3%

** FY2007 is estimated revenues based on 4.8% tuition and fee increase and an estimated FYES of 8,643.*

MODEL -- Total Revenue per FYES
(Total Revenue Model)

Fiscal Years 2001 through 2007



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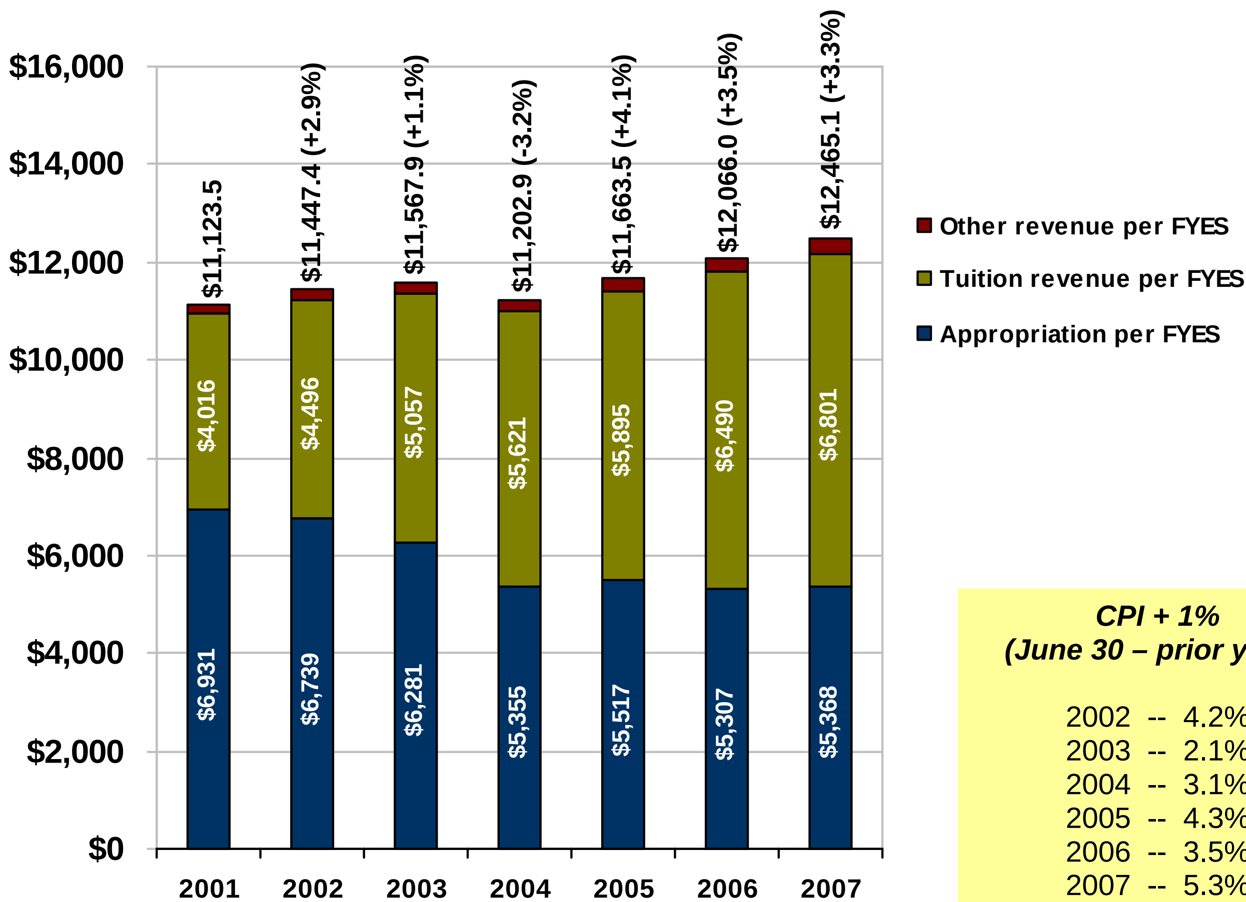
ACTUAL -- Total Revenue per FYES

Fiscal Years 2001 through 2007



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