



**POTENTIAL IMPACT
ON SOUTHEAST MISSOURI STATE UNIVERSITY
OF EXTRAORDINARY REDUCTIONS
IN OPERATIONS APPROPRIATION FOR FY2010**

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I. BACKGROUND AND ASSUMPTIONS

The net operations appropriation for Southeast Missouri State University was reduced significantly during the period FY02 to FY04 – and in FY09 remains below the FY01 level despite eight years of inflationary cost increases and student enrollments that have increased by over 20 percent. The CPI-U index indicates inflation of over 27 percent during those eight years, and Southeast is now serving over 1,900 more students than in the 2000-2001 academic year – doing so with a net FY09 operations appropriation that is \$1.8 million less than in FY01.

The University has now been asked to provide information as to the impact of three different budget scenarios for FY10, assuming operations budget reductions of 15 percent, 20 percent, or 25 percent. In dollar terms, based on a current general revenue operations appropriation of \$44,586,116, these three scenarios would result in operations appropriation cuts as follows:

15%	\$ 6,687,917
20%	\$ 8,917,223
25%	\$11,146,529

In explaining how the institution might cope with reductions of this magnitude, it is important to understand that in dealing with the FY02-FY04 reductions outlined in the first paragraph above, the University has already restructured and has reduced positions and expenditures strategically, even as enrollment numbers have increased, in order to maintain the quality of the educational experience and to maintain access to postsecondary education services for the people of Southeast Missouri.

As outlined in Attachment 1, Southeast Base Budget Analysis from our FY02-FY04 budget reductions, Southeast eliminated 19.8 staff positions and reduced 12 others (line E1.). We eliminated 14 faculty positions and seven graduate assistantships (line E2) resulting in a total savings of almost \$2.2 million in personnel costs. At the same time, we reduced equipment and operations base budgets in both non-instructional and academic (instructional) areas by \$1.7 million (line F3). We eliminated four academic programs and restructured academic administration.

We used student fees to offset a limited portion of the loss of state funding and to maintain quality and access. Since we have a mission of providing access in an economically deprived region, Southeast continues to maintain some of the lowest tuition among the four-year comprehensive institutions in Missouri.

Operations reductions at the \$6.7 million to \$11.1 million level in addition to past cuts and inflationary pressures (including such required expenditure increases as MOSERS, health insurance premiums, minimum wage escalation, etc.), mean that the University would have to take more drastic action than in the recent past to avoid significantly degrading quality of instruction throughout the institution. Just to put the dollar amounts into perspective, even a 15 percent operations reduction of \$6.7 million would be larger than the combined budgets of the University's School of Polytechnic Studies and College of Education. A 25 percent operations appropriation reduction would be greater than the combined budgets of Kent Library, the College of Education and the School of Polytechnic Studies.

To deal with reductions of the magnitude being discussed, the University would be forced to take some combination of the following actions, which are detailed in Section III: making selective cuts in operations, equipment, and maintenance budgets throughout the campus; eliminating faculty and staff positions; reducing the number of academic programs available in a section of Missouri in which Southeast is the only four-year bachelor's- and graduate-level institution; eliminating or significantly reducing non-core services currently offered to the people of the region; reducing scholarships; increasing student fees; and/or capping the number of students to be served. Much of the cost saving in these actions would of necessity come from reductions in personnel numbers as shown Attachment 2.

Each of the possible responses to a reduction of this level would have a serious negative impact on the University's ability to carry out its mission, on access to postsecondary education in the Southeast Missouri State University region, and on the long-term economic development of communities in Southeast Missouri.

Disclaimer: Since we had very limited time to respond to this request for information, a complete, well-thought-out plan of action could not be formulated. The University does not compensate for reduced appropriations by making across-the-board cuts, but rather uses a collegial process involving the campus community in open forums and public discussions of the pros and cons of any proposed budgetary action, with the ultimate goal of having the least negative impact on student services and academic quality. The following scenario is in response to a "what if" question and would have to be refined in the event the 15

percent to 25 percent operations reduction were to materialize. All these “possible responses” are areas in which expense reductions and revenue enhancements could be achieved, but each would have a significant negative impact on access, academic quality, services for students, or all of these. Some combination of these possible responses is inevitable if large reductions in state funding occur in FY10.

II. PROPOSED STATE ACTIONS

A. Access Missouri. The need-based program, Access Missouri financial assistance, was designed to provide students with a simplified financial aid process, provide predictable, portable awards, and increase access to a student's school of choice, whether community college, public four-year or private. Eligibility is determined by the student's expected family contribution (EFC) as calculated through the Free Application for Federal Student Aid (FAFSA). Award amounts are based on the type of school the student is attending. Students who receive Access Missouri financial assistance for private schools can be provided with more than four times the maximum amount of a community college student and more than double that of a four-year public college student (see chart below). Since public institutions would bear the burden of state operations appropriations reductions in higher education and these public institutions would probably need to increase tuition over the CPI, a redistribution of the Access Missouri financial assistance dollars to provide more equitable assistance to the students of public institutions would allow continued access to higher education.

Public 2-Year		Public 4-Year and Linn State Technical College		Private	
Maximum	Minimum	Maximum	Minimum	Maximum	Minimum
\$1,000	\$300	\$2,150	\$1,000	\$4,600	\$2,000

The Access Missouri financial assistance program provides awards to higher-income families, some who have an annual income of more than \$100,000. According to the MDHE in February, 2008, approximately 52 percent of the dollars had been awarded to students at private institutions, while 73 percent of the students receiving Access Missouri awards were attending public institutions. In effect, more dollars are awarded to fewer students who are enrolled in private institutions.

Scholarship budget reductions in each of our scenarios have an impact on our students who exhibit need. Our region serves an historically economically depressed population; therefore, these reductions will necessitate assistance from non-loan resources to meet educational expenses especially with increases in tuition and fees.

A redistribution of Access Missouri financial assistance dollars might be achieved in one of several ways:

- While the state is dealing with operations appropriations reductions, Access Missouri financial assistance award amounts could be revised for private institutions, thus directing state-supported financial assistance to public institutions.
- Lower EFC cap as calculated through FAFSA for Access Missouri awards to effectively provide for more continued accessibility for financially high-needs students.
- Equalize the maximum and minimum awards for all institutions across the board. Consideration needs to be given to a more student-based financial assistance approach as opposed to an institution-based approach. There should be a “sliding scale” in terms of aid given, in which needier students are given preference over wealthier families, as well as a larger amount of aid. Awards should be based on income, rather than the cost of attendance.

B. A+. The state needs to review the possibility of revamping the A+ Program. A+ normally pays for any tuition and fees charged to all students, after any Pell Grant and any State of Missouri grant or scholarship (except Bright Flight) monies are applied to these charges. Students who attend A+ designated high schools and have met the criteria for the A+ program may use these funds at private technical schools, public career technical schools, and public community colleges.

A+ funding is only available to students at qualified high schools, thus eliminating a large number of students from the program. For many students who qualify for A+, there is no community college in their district/region to attend and to apply the funding. This program could help public institutions by making the program available to all high school graduates across the state and applicable to the first two years of public education, regardless of whether the institution is a public two-year or four-year institution.

C. State Tax Credits. Rather than reduce the operations appropriations for higher education, the reduction of tax credits should be considered.

III. POSSIBLE RESPONSES TO EXTRAORDINARY APPROPRIATION REDUCTIONS

1. Reduce Maintenance, Operations and Equipment expenditures:

1a. Defer maintenance on existing physical facilities. During the 1980s, Missouri higher education and Southeast Missouri State University were forced to defer maintenance on state-owned physical plant facilities due to the lack of funds. This problem was

addressed, at considerable expense, in the 1990s, but maintenance has already been dramatically curtailed since FY02, and would be further reduced due to the extraordinary operations appropriation reductions being considered.

IMPACT: Our physical plant is valued at over \$400 million, including buildings that range in age from brand new to more than 100 years old. Continued deferral of needed maintenance threatens Missouri's investment in our state-owned assets. Missouri will face higher repair costs on state-owned higher education facilities in the future if routine maintenance is postponed and damage to building envelopes takes place as a result of the deferral.

1b. Reduce operations budgets. The University does not typically make across-the-board reductions in operations budgets, believing this can negatively impact the overall quality of the institution. Instead, it would use a collegial process to determine where selective reductions in operations budgets would have the least impact on quality and services to students.

IMPACT: Until a process is conducted to determine what operations dollars can be targeted for elimination, it is not possible to summarize the impact of these reductions in any detail. In addition, operations budgets of the University and most departments are still strained from the reductions made since the FY02-FY04 period, compounded by required expense increases for such items as postage, utilities and minimum wage.

1c. Postpone academic equipment purchases necessary to prepare students for 21st century careers. During the earlier fiscal crisis, almost all academic equipment purchases were postponed, such as computer upgrades to support Windows XP and laboratory equipment for chemistry, physics and other sciences. A similar deferral of equipment purchases would likely be necessary.

IMPACT: There are many examples in which university academic technology is falling behind the technology currently in use in high schools and the workplace, largely as a result of inadequate funding over the past eight years. If purchases such as equipment for information technology, instruction, and science laboratories continue to be deferred, Southeast graduates will not be 100 percent prepared when they enter the job market. Equipment purchase budget reductions would make it more difficult to keep up with technology and state-of-the-art equipment needed to accomplish the University's educational mission.

2. **Reduce personnel costs.**

2a. Reduce staff positions. The University's program review conducted in response to the FY02-FY04 appropriation cuts was singled out for praise by the State Auditor as a model approach to responsible budgeting in times of crisis and beyond. One part of that program review involved non-academic programs. As a result of that review, the University eliminated 20 staff positions and reduced the cost of 12 others for a total saving of over \$900,000. It is anticipated that an extraordinary review process would be necessary in the event of 15 percent to 25 percent operations budget reductions, likely resulting in the elimination of additional staff positions. Attachment 2 indicates that the number of staff positions to be reduced could range between 24 and 41, depending upon the size of the operations appropriation reduction.

IMPACT: Until a process is conducted to determine which positions could be targeted for elimination, it is not possible to summarize the impact of these reductions in any detail. However, staff positions typically provide necessary services to students and the university community and their elimination would reduce the availability and quality of those services. Further, the loss of staff positions would have a serious economic impact on the Cape Girardeau community and surrounding region.

2b. Eliminate academic programs / Reduce faculty positions. The second part of the FY02-FY04 program review was an evaluation of the 18 academic programs with the lowest number of majors. As a result of that review, the University eliminated degree programs in geosciences (graduate and undergraduate), geography and sociology, eliminated 14 faculty and seven graduate assistant positions, and reduced faculty in physics, philosophy and religion, economics, and agriculture. These permanent academic reductions reduced annual expenses by almost \$1.3 million. The review process put in place at that time is ongoing, and academic departments are subject to annual evaluation in order to reallocate resources to areas of growing demand. However, it is anticipated that an extraordinary review process would be necessary in the event of 15 to 25 percent operations budget reductions, likely resulting in the elimination of more faculty positions and additional academic programs. Attachment 2 indicates that the number of faculty positions to be reduced could range between 23 and 38, depending on the size of the operations appropriation reduction.

IMPACT: Since Southeast Missouri State University is the only bachelor's and master's degree-granting institution in the 24 outstate counties of its service area, the demands of students in the region for discontinued majors could not be met, thus limiting access to higher education opportunity in an economically deprived area. A reduction in number of faculty would mean fewer sections of courses could be offered, thus extending the amount of time required for degree completion and costing students extra out-of-pocket expense and deferral of employment. Further, the loss of faculty positions would have a serious economic impact on the Cape Girardeau community and surrounding region.

- 3. Reduce institutional scholarships.** The University's institutional merit-based and need-based scholarship programs are designed to provide access to those with financial need and encourage the brightest students to stay in Missouri. We would likely have to reduce the scope of these scholarship programs as shown on the attached chart.

IMPACT: The out-of-pocket expenses or expected family contribution per student would increase, and more of our brightest and best high school graduates, for whom there is significant competition among institutions across state lines, would likely either go out of state or not attend college at all due to a reduction of our scholarship programs.

- 4. Increase student fees.** In regard to the potential impact on student fees, the University would not consider passing on to students the entire cost of the appropriation reductions, even if there were no statutory requirements for tuition increases. For example, during the fiscal crises of FY02 through FY04, the University experienced appropriation reductions and inflationary cost increases equivalent to \$53.13 per credit hour, but expense reductions totaling over \$3.7 million were made as a result of a comprehensive review of both academic and non-academic programs, and students were asked to absorb increases of only \$38 per credit hour. In

order to illustrate the magnitude of the 15 to 25 percent operations appropriation cuts, if the cost of the entire reduction were to be borne by the students, the fee increase would be in the range of \$27 to \$45 per credit hour or \$800 to \$1,400 per year per full-time student. It is extremely unlikely that the Board of Regents would seek to impose a fee increase of this size, but a substantial increase is nonetheless likely. Since the extraordinary reductions of operations appropriations being contemplated far exceed the CPI, which is the index used in S.B. 389 for determining tuition increases permissible without MDHE approval, it seems likely that the University would be forced to seek MDHE permission to raise fees higher than the CPI-based cap.

IMPACT: Another large fee increase, coming on the heels of significant increases since FY02, will increase the need for additional state-funded or institutionally funded need-based aid to students, may price students out of higher education, will reduce access to postsecondary education, and will have a negative impact on the economic development of the Southeast Missouri region in the long term.

5. **Place a cap on enrollment.** As a result of making concerted efforts to increase access to higher education in its region, the University now serves almost 11,000 students, up from less than 9,000 in the fall of 2000, while receiving less state funding than in 2000-2001. Full-Time Equivalent (FTE) enrollment at Southeast stands at 8,172 (fall 2008), up 21 percent from 6,764 in fall 2000. A gain or loss of 50 students has an immediate impact on tuition revenue, for better or worse, of more than \$277,000 on our budget. For every 50 students denied access, the University would be able to eliminate a few faculty positions and selected staff support positions with related operation expenses.

IMPACT: The emphasis of Southeast Missouri State University's mission since 1996 has been to increase the college-going rate in Southeast Missouri by improving access, adding high-demand academic programs, and taking educational opportunity out into the region. This effort is succeeding, as shown by the growth in enrollment. Capping enrollment would reverse this trend, making it impossible for some students to attend the University. There would also be a negative economic impact on our region, since the elimination of every 100 students would result in approximately \$1 million loss to the region's economy.

SOUTHEAST BASE BUDGET ANALYSIS

A. CHANGES IN ENROLLMENT							
	HEAD COUNT	PCT. CHANGE	FTE	PCT. CHANGE			
FY01 (Fall 2000)	8,951		6,764				
FY04 (Fall 2003)	9,570		7,432				
CHANGE	619	6.9%	668	9.9%			
B. CHANGES IN BASE BUDGET STATE APPROPRIATION					APPROP.	CHANGE	PCT. CHANGE
FY01 (Fall 2000)					\$50,453,036		
FY04 (Fall 2003)					\$42,185,340		
CHANGE						-\$8,267,696	-16.4%
C. INCREASES IN "COST TO CONTINUE" EXPENSES							
FY2002					-\$500,095		
FY2003					-\$815,542		
FY2004					-\$1,047,151		
FY02 Compensation Packages \$533,406 funded from internal budget cuts)					-\$474,046		
FY04 Compensation Packages					-\$1,623,810		
TOTAL						-\$4,460,644	
D. EXPENSE REDUCTIONS OR ADD'L. REVENUE NEEDED TO BALANCE FY04 BASE BUDGET							-\$12,728,340
E. PERMANENT PERSONNEL REDUCTIONS (BASE BUDGET) -- FY03 and FY04							
1. Staff personnel reductions (base) -- E&G positions: 19.8 eliminated, 12 affected					\$927,317		42.2% Plus 9 Auxiliary
2. Faculty personnel reductions (base) -- 14 positions + 7 G.A.s eliminated					\$1,272,670		57.8%
3. TOTAL BASE SAVINGS FROM PERSONNEL REDUCTIONS						\$2,199,987	100.0%
F. PERMANENT REDUCTIONS IN EQUIPMENT AND OPERATIONS (BASE BUDGET) - FY03 and FY04							
1. Non-instructional areas					\$1,129,689		65.9%
2. Academic areas					\$585,064		34.1%
3. TOTAL BASE SAVINGS FROM EQUIPMENT AND OPERATIONS REDUCTIONS						\$1,714,753	100.0%
G. ADDED REVENUE TO BASE BUDGET							
1. Incidental fee increases (net of scholarships and waivers)					\$7,315,000		
2. Other revenue increases (auxiliary overhead, course fees, athletics revenue)					\$1,647,479		
3. TOTAL ADDED REVENUE TO BASE BUDGET						\$8,962,479	
H. TOTAL EXPENSE REDUCTIONS AND ADDITIONAL REVENUE (Lines E+F+G)							\$12,877,219
I. ONE-TIME WITHHOLDINGS (in addition to usual 3%)							AS % OF FY04 BASE
FY2002					-\$7,158,049		
FY2003					-\$1,524,455		
FY2004 to date					-\$1,070,331		
One-Time Appropriation (effective July 1, 2003)					\$602,024		
Release (December 2, 2003)					\$412,000		
TOTAL						-\$8,738,811	-20.7%

Impact of Anticipated FY2010 General Revenue Appropriation Reduction

	15%			20%			25%		
Total Reduction	\$ 6,687,917			\$ 8,917,223			\$ 11,146,529		
Less Reductions in:									
Scholarships	\$ (1,565,325)			\$(2,087,100)			\$ (2,608,875)		
Maintenance, Operations, and Equipment	<u>(2,091,048)</u>			<u>(2,788,064)</u>			<u>(3,485,080)</u>		
Subtotal	\$ 3,031,545			\$ 4,042,060			\$ 5,052,575		
		# FTE w/	% of		# FTE w/	% of		# FTE w/	% of
Remainder from personnel		<u>Benefits</u>	<u>Current</u>		<u>Benefits</u>	<u>Current</u>		<u>Benefits</u>	<u>Current</u>
Faculty	(1,649,404)	23	4.7%	(2,199,205)	31	6.3%	(2,749,007)	38	7.8%
Executive & Dean	(118,948)	1	5.0%	(158,598)	1	6.6%	(198,247)	1	8.3%
Administrator	(164,666)	2	4.8%	(219,555)	2	6.4%	(274,444)	3	8.1%
Professional	(513,962)	8	4.6%	(685,283)	11	6.2%	(856,604)	14	7.7%
Clerical	(229,262)	7	4.2%	(305,683)	9	5.6%	(382,104)	11	7.0%
Technical	(92,716)	2	4.5%	(123,621)	3	6.0%	(154,527)	3	7.5%
Crafts & Trade	(178,542)	3	4.6%	(238,056)	4	6.1%	(297,570)	5	7.7%
Service (Non-Bargaining)	(41,057)	1	4.5%	(54,743)	1	6.0%	(68,429)	1	7.5%
Service (Bargaining)	<u>(42,987)</u>	<u>1</u>	4.2%	<u>(57,315)</u>	<u>2</u>	5.6%	<u>(71,644)</u>	<u>2</u>	7.0%
	\$ (3,031,545)	47		\$(4,042,060)	63		\$ (5,052,575)	79	