Our Time, Our Plan, Our Future

Fiscal / Economic / Political Environment

Northern Kentucky University
2013 Strategic Planning Process
Workgroup Report

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Workgroup Members
Eric Brose
Gary Clayton
Natasha Dempsey
Donald Gorbandt
Kristi Haik
Russ Kerdolff
Sara Kelly
Ken Kline
Richard Kolbe
Sue Moore
Steve Nienaber
Erik Pederson
Ryan Salzman
Leah Stewart
Joseph Wind
Karen Zerhusen Kruer

Introduction

The Fiscal / Economic / Political Environment workgroup was charged with analyzing the fiscal, economic, and political environmental factors that are anticipated to most heavily influence the future of the university over the planning horizon.

Methodology

The workgroup separated the research into eight separate topics of study. Each topic was assigned a team of three workgroup members who researched their topic and presented their findings to the entire workgroup during our weekly meetings. The entire workgroup then discussed the research and offered insights into the importance and overall impact of the findings over the planning horizon. Common themes from many of the research papers were combined for the final paper. We encourage review of the meeting minutes containing the details of these discussions. The research topics included:

1. Federal fiscal / economic issues
2. Federal issues, laws, regulations, mandates and trends
3. State fiscal / economic issues
4. State issues, laws, regulations, mandates and trends
5. Council on Postsecondary Education (CPE) rules and regulations / Statewide Coordinating and Governing Board trends
6. Public policy issues
7. Regional and local considerations
8. University finances / budget

Findings

The committee identified three primary drivers that we anticipate will most heavily influence the fiscal, economic, and political environment the university will face over the planning horizon. These drivers include the federal budget, the state budget, and economic competitiveness (through educational attainment).

Primary Drivers

1. Federal Budget

The projected constraints on federal spending plays a primary role in driving the political, economic, and fiscal factors that will impact our future. Currently US debt is estimated at 100.8% of GDP and our federal budget deficit is estimated at 7% of GDP (see appendix). The U.S. has not experienced debt and budget deficits at these levels since the WWII era. In addition, entitlements (Medicaid, Medicare, Social Security) are projected to grow regardless of any reforms that are enacted. Current projections from the Congressional Budget Office indicate that entitlements will grow from 10.3% of the federal budget in 2010 to 12.1% in 2020. Finally, effective tax rates remain near historic lows despite the recent changes to the tax structure. While it is difficult to predict the state of national politics and adopted solutions over the planning horizon, most federal programs are at risk of receiving budget reductions and those programs that receive funding will likely receive increased scrutiny. Policymakers will try to do more with less through regulations, accountability measures, and potentially incentive funds.

Measures to reduce the federal budget deficit will directly reduce overall funding for federal grants and contracts. In addition, the discontinuation of federal earmarks means new funds specifically targeted for NKU are unlikely during this planning timeline (for example, NKU received federal earmarks for Griffin Hall). However, while reduced, agency grants and contracts will continue. The return on investment (ROI) time horizon from awards will be short. Funds will be focused on target areas that match national priorities, including economic growth, job creation, defense, and the control of health care costs. NKU should consider targeting specific areas of expertise in order to compete effectively against more established research institutions. By being well positioned, NKU may compete effectively and find opportunities to expand research and educational activities on campus.

2. State Budget

The State of Kentucky has a structural deficit with its budget; meaning budget gaps have been closed by using a variety of one-time monies and by pushing costs into future years. These costs include a $30 billion unfunded pension obligation and $157 million in recurring expenses supported by one-time money in the current budget. Growth in general fund revenues has slowed considerably (2.5% from 2000-2010) and most state agencies have seen cuts of roughly 11% over the past 15 years. Effective tax rates are at 20-year lows and the prospect for new revenues over the planning horizon is uncertain. According to the Center for Business and Economic Research (CBER) at the University of Kentucky, at current spending levels, Kentucky will have a structural deficit that could reach $1 billion by 2020. Revenue enhancement measures that have been proposed include legalizing casino gambling and tax reform, yet a consensus on new revenue is far from being accomplished.

Postsecondary education has remained a priority for Kentucky; however, revenue has not been sufficient to maintain the State's investment. While Kentucky's personal income has increased 94% over the past 15 years, investment in postsecondary education has only increased 32% (with much of this investment in the form of financial aid funded with lottery revenue). On an inflation-adjusted basis, state appropriations per student for higher education has been reduced 32% since FY08. Both the decreases in state appropriations per student and the funding of higher education primarily through financial aid have contributed significantly to large tuition increases across the state and a structural shift in the cost of higher education from the state to the student. This trend is expected to continue as corrections, debt service, and Medicaid have consumed larger portions of the state budget over the past 15 years.

NKU operates with the fewest state dollars of any of Kentucky's four-year public institutions. If NKU were funded at the average of the Kentucky public comprehensive institutions, NKU would receive an additional $18.4 million in state appropriations. Given the state budget picture, NKU's best opportunities to receive additional state appropriations in the next two biennia are through a reallocation of funds from other institutions and through innovative requests outside of the higher education budget request process that promote economic development in the Commonwealth. Reallocation from other institutions would most likely come from a change in the methodology used to distribute state appropriations to institutions.

Many states are incorporating performance-based funding into their allocation formulas. These performance-based funding models reward institutions for improving performance on specific metrics or achieving specific results. Kentucky has incorporated performance funding into their biennial budget requests; however, these budget requests have not been funded. Some states are moving towards a more outcomes-based funding model. With outcomes-based funding models, institutions are provided funds based on the outcomes they achieve, rather than improvement in specific metrics. Moving to an outcomes-based funding formula in Kentucky would likely be very advantageous to NKU.

Kentucky legislators have expressed interest in looking at outcomes-based funding for Kentucky. In December 2012, representative Carl Rollins introduced a pre-filed bill calling for a review of tuition and financial aid policies, as well as the manner in which state appropriations are distributed. However, the bill did not make it out of Committee during the 2013 legislative session. It will be difficult for the State to address NKU's underfunding per FTE student relative to the other KY institutions without new funding or a shift in the political landscape. While NKU has both policy and a history of strong institutional performance in our favor, the current political climate does not support a change from the status quo.

3. Economic Competitiveness / Educational Attainment

The prevalent belief among policy makers is that earning a post-secondary degree or credential is a prerequisite for the growing jobs of the new economy. Increasing educational attainment is seen as critical to our economic future in order to remain internationally competitive. In addition, educational attainment is viewed as a means to break the cycle of poverty and reduce spending on social services and governmental assistance. Nationally, the U.S. has fallen to 16th in the world in our share of certificates and degrees awarded to adults ages 25-34 (http://www.whitehouse.gov/issues/education/higher-education). President Obama has set a goal for the country, calling for America to once again have the highest proportion of college graduates in the world by 2020.

From the state's perspective, Kentucky is also trying to remain economically competitive both nationally and internationally. The Kentucky Council for Postsecondary Education's strategic plan is focused on increasing educational attainment as a means to improving economic conditions in the State. In particular, educational policy is focused on significantly increasing the number of Kentuckians with a postsecondary degree or certificate as well as increasing the number of postsecondary degrees and certificates in STEM+H fields (science, technology, engineering, math, health). In addition, many legislators are focused on degrees that enhance the employability of their constituents and are discounting the importance of degrees that do not directly provide a clear path to employment.

While some have questioned the success of this approach (where are the jobs) or the value of a college degree, the prevailing view is that improving education in both Kentucky and our nation is a primary factor for our future economic success. The vast majority of adult Americans (18 and older) believe:

- It is very important to have a certificate or degree beyond high school.
- That having education beyond high school is important to a person's financial security.
- It is very important to getting a good job and earning more money.
- That having this education will help with job security and one's financial future. (*Source: American's Call of Higher Education Redesign,* Lumina Foundation, 2013)

Secondary Impacts

Tuition Policy

Over the last 15 years, substantial tuition increases in Kentucky can be attributed to the failure of state funding to keep pace with inflationary and enrollment increases, investments needed to meet the State's higher education goals, and increases in state funding coming primarily through student financial aid. In recent years, both the federal and state government have taken steps to curtail tuition increases. At the state level, this has translated to resident undergraduate tuition caps being imposed by the CPE. These tuition caps have ranged from 4% - 5% over the past four years. Not only does this policy limit our ability to raise revenue through tuition increases, but it also limits our ability to financially recoup our investments. In other words, we are not able to raise prices to our resident students even if we deliver a substantially more valuable degree. In addition, many policy makers do not understand the cost factors faced by an institution. These policy makers would prefer to just lower tuition rates while increasing quality at the same time. They are skeptical of our use of funds for costs other than direct educational expenses. Those who do understand the cost structure realize that under the current educational model, it will be very difficult to provide the state support needed to keep tuition affordable and meet educational attainment goals. Seeking new pathways to high quality, lower cost degrees appears to be the only solution to meeting educational attainment goals and remaining economically competitive.

Strategies for generating tuition revenue through higher paying out-of-state students will continue to present challenges for NKU. Some believe that state funds should be used only for Kentucky residents. Therefore some funding comparisons presented focus on total public funds (state funds + tuition) or include state funding per resident student only. In either case, NKU has a higher out-of-state population than other Kentucky public institutions and is viewed by some as an institution that heavily educates out-of-state students who are not likely to add to Kentucky's economy. Strategies that retain out-of-state students in Kentucky's economy upon graduation will bolster efforts to advocate for additional state support. In addition, showing a net economic value to the Commonwealth for drawing out-of-state students to NKU and/or proving that the out-of-state tuition subsidizes in-state students are important to our advocacy efforts.

Transparency and Accountability

Along with the rising cost of tuition, and the focus on increasing educational attainment in the face of reduced funding per student, there has been an increased push for better transparency and accountability. From the student / parent perspective, transparency allows students to make more informed decisions regarding their postsecondary education. From the federal / state perspective, accountability attempts to ensure that their investments in higher education are not wasted (from the policy makers perspective). This increased transparence and accountability presents itself in several ways:

- 3rd party sources of comparative information such as collegemeasures.org, College scorecard.
- Federal initiatives such as the net price calculator and college scorecard.
- State initiatives such as the strategic planning dashboard and development of new metrics to better measure performance and ROI.

These tools can be an asset to both our recruiting and advocating for additional state funds as they highlight strong institutional performance. For example, NKU appears favorable in terms of affordability and available financial aid on the new College Scorecard. However, NKU's graduation rates are in the “low” range on the Scorecard. As high school students are directed to the College Scorecard when researching their prospective institutions, this tool represents both a potential asset and a current challenge for our future recruiting efforts.

Efficiencies

Most policymakers understand that they will not reach their educational attainment goals without developing lower cost pathways to high quality postsecondary education credentials. Federal and state funding cannot keep pace with enrollment growth nor can tuition rates continue to escalate at public institutions. In an attempt to increase educational attainment without committing significant additional resources, policy makers will continue to explore and push initiatives such as 2+2 programs, massive online open courses (MOOCS), school based scholars, online education, etc. Online enrollment at NKU continues to grow at double-digit rates, increasing from 2,100 in 2007 to 7,800 in 2012. However, our current model for online education does not offer substantial cost savings relative to our in-person classes. School based scholars (dual credit) programs are offered at area high schools at a cost of one credit hour for a three credit hour course. Currently there are no clear institutional revenue strategies to fully offset the cost of these delivery models. Reconciling the delivery of quality education with lower cost pathways to a postsecondary credential is an issue that must be addressed with policy makers sooner rather than later.

In addition, the CPE will continue to place an increased emphasis on exploring system-wide opportunities for savings as well as tracking and reporting institutional cost savings and efficiencies. Possibilities that have been raised include ideas such as centralizing back office functions and consolidating system-wide contracts such as health insurance, energy, etc.

Adult Learners / Non-Traditional Students / First Generation

To achieve the educational attainment targets set by policymakers, large increases in degree attainment by adult learners / non-traditional students and first generation students will be needed. There are initiatives underway in Kentucky to provide a lower cost option for adult learners who may not need the full services of a traditional educational experience. Federal funds may be available in the future targeted to these populations and new metrics will be developed to track our performance in educating this population of students. However, it is not clear if there are large numbers of adult/non-traditional students who are prepared for or willing to pursue their degree or other credential. Having a better understanding of this population and its potential for growth for NKU will help us better advocate for state funding policies that support this understanding.

NKU serves adult learners through traditional programs, online programs, and cohort based programs. Adult learners are often some of the stronger students in class. 47% of NKU graduates last year were 25 years or older.

Financial Aid

Funding federal financial aid has been a priority for the Obama administration; however, funding has not kept pace with financial need as a result of both enrollment growth and tuition increases. This has created a growing gap in the financial need of students. Between 2006-07 and 2010-11, the federal government showed a 59% increase in the number of students applying for federal financial assistance. The total amount of federal student aid awarded to students under Title IV of the Higher Education Act jumped from $64 billion to an estimated $169 billion in a 10-year period. Over this same 10-year period, the maximum Pell Grant has risen from $3,125 to $5,550, an increase of only $1,400. This $1,400 increase is well below average tuition increases at four-year public and private institutions.

The federal government is taking steps to contain costs such as increasing the Pell annual award maximum significantly less that the rate of inflation, reducing funding for other financial aid programs, reducing institutional awards for federal work study, consolidating student loan programs, etc. While some of these measures will improve efficiencies rather than reduce funding, NKU cannot expect increases in federal financial aid will keep the institution affordable for many of our students. Of particular concern are reductions in funding for the Federal Work Study program at NKU. Student employment has been a point of emphasis for the institution's retention efforts. In addition, significant reductions in Pell to balance the federal budget could jeopardize our enrollment. While President Obama has been a strong supporter of the program, and we do not expect significant overall reductions to the program over the next three years, structural changes to the program could impact many of our students. For example, a lifetime maximum for Pell grants of six years, or 12 full-time semesters, was implemented in 2012. This lifetime maximum will be burdensome from some transfer students who received Pell grants while they attended community colleges.

With limited ability to provide large amounts of new funding to spur change, the federal government will turn to implementing new requirements that institutions must meet in order to remain eligible to participate in federal financial aid programs. For example, the federal government required institutions to provide a net price calculator on their web site in 2011. In some instances, these efforts can benefit NKU. For example, regulations enacted to require greater accountability in advertising employment opportunities associated with degrees and credentials have significantly impacted the for-profit sector. In any case, NKU can expect continued regulation in the foreseeable future as the federal government tries to push for continued innovation in providing high quality, lower cost degree pathways.

The primary State financial aid programs for students at public institutions are KEES and CAP. The merit based KEES program is very popular and funding has been provided annually to maintain the State's commitment to students. However, funding for the need-based CAP program has suffered considerably. In 2010-11, 73,010 Kentuckians eligible for the CAP program were denied financial aid based on a lack of funding. The total value of denied applications was $119.3 million. The KEES and CAP programs are funded from lottery revenues, which have failed to keep pace with both enrollment and tuition increases. While discussions have taken place to reassess the KEES and CAP programs and their place in postsecondary education in Kentucky, significant additional funding seems unrealistic at this time and changing the KEES program would be politically difficult.

There are currently state initiatives to look into increasing need-based tuition assistance; however, with the lack of revenue sources to draw from, this goal may compete with state general fund revenue given directly to institutions.

Student Loan Debt

Increasing tuition rates and reductions in need-based financial aid are contributing to rising levels of student loan debt. This increasing reliance on student loans to finance higher education is fueling new calls for more transparency in regards to institutional student loan debt levels, repayments, and job placement rates. In addition, there is speculation that student loan debt is the next bubble to burst. This poses a significant financial risk to both NKU and all of higher education.

Other Considerations

Regional

NKU is a major economic driver for the region. Three direct economic impact studies have been conducted that conclude:

- NKU students spend approximately $175,000,000 in the northern Kentucky region.
- NKU provides over $1.8 million in annual tax revenue to Campbell County and Highland Heights.
- The BOK Center has had an $8 million economic impact through attracting visitors from outside the region.

More importantly, NKU works well with local school districts and area businesses to provide the region with the educated workforce and application of knowledge that it needs to grow. Politically, the university is valued as an asset to the region and is supported by legislators. However, there is a concern that we do compete with other regional priorities. Some Northern Kentucky leaders believe that NKU has received the lion's share of state and federal funds in the community and that the university should allow other priorities to be completed. This is primarily in relation to construction-related state investments. Expansion of the convention center was the #1 capital priority for the northern Kentucky caucus last session. The university can improve on its ability to build support in the region to advocate for additional state funds for the university by preparing clear and easy to understand information about postsecondary education funding, expenditures, and outcomes.

Institutional Budget

The university budget is separated into the university operating budget, the NKU Research Foundation, and the NKU Foundation. The university budget process allocates resources for the university's operating budget only. The university's central budget process utilizes a combination of incremental budgeting and initiative-based budgeting. Incremental funds are provided to cover university fixed cost increases whereas investments are provided based on request processes. Budget cuts are typically managed with an incremental reduction target by Division total. Within each Division, Vice Presidents have the flexibility to utilize their own budget methodologies and readjust their budget annually.

The university's operating budget is very tuition dependent. For 2013, 64% of the university's operating budget came from tuition, 22% from state appropriations, and 14% from other sources such as fees, self-supporting operations (parking, dining, housing, bookstore, vending), and facility revenue (BOK, METS). This compares 2002 in which 45% of the university's operating budget came from tuition, 42% from state appropriation, and 13% from other sources. The university faces challenges in continuing to grow tuition revenue through tuition increases. As stated earlier, the growing pressure to keep tuition low has resulted in resident tuition caps for Kentucky. In addition, tuition freezes and tuition caps in Ohio have hindered our ability to remain price competitive with the University of Cincinnati for metro area students. Finally, the Kentucky market and the regional market are becoming more competitive each year.

For FY13, personnel costs represented 63% of the total operating budget (faculty = $50M, staff = $45M, benefits=$34M) and student financial aid represented 7.5% of the total operating budget. The remaining 20% included operating (17%), utilities (3%), debt service (3.5%), and reserves (6%). NKU's most significant current budgetary expenditure issues include:

1. Benefit costs increases: NKU pension obligations have been increasing approximately $1.3 million a year. Even with these increases, the state pension system remains significantly underfunded. With the proposed pension reform bill introduced this past legislation session, NKU's increase is estimated at approximately $5 million a year.
2. Deferred maintenance: NKU's deferred maintenance backlog is estimated at $240 million, excluding auxiliary services. The university currently funds deferred maintenance using one-time funds such as unexpended reserves, tuition revenues over budget, and lapsed personnel budgets. Major capital renewal projects (e.g. Founder's Hall) compete with new capital projects (e.g. Health Innovations) in the State's capital budget process.
3. Technology costs: Technology costs continue to grow. SAP has cost the university as much as it cost to build Griffin Hall. Online courses require IT staff and technology

infrastructure to develop and support. The demands on the IT infrastructure on campus continues to grow as students bring more devices to campus, faculty integrate more technology in the classrooms, and administrative offices implement new technology to improve retention, reduce costs, and better serve students.

4. Compensation: Over the past 4 years, the university has funded one recurring 3% merit pool for faculty and staff. While this compares favorably to State government and some institutions in the State, it compares less favorably to other institutions in the State and the region, the Northern Kentucky / Cincinnati labor market, and annual rates of inflation. In addition, many senior faculty earn less than our junior faculty as a result of salary compression.
5. Investments in Student Success and Academic Quality: New funds for investment have not been available from increases in tuition rates and state appropriations. Institutional investments have been financed through reallocation of existing funds and increased productivity. As a labor-intensive enterprise with a lean administrative infrastructure compared to like institutions, NKU will be challenged to continue to find funds to invest in new initiatives.

Institutional Finances

Moody's Investors Service's annual review of the University's credit rating provides an independent summary of the University's current financial position and future prospects. They review the University's strengths, challenges, market position/competitive strategy, operating performance and balance sheet position, governance and management, legal security, debt structure, and other credit specific considerations that impact the University's financial position and associated credit rating.

In their most recent review Moody's assigned an A1 rating based on the University's stable market position, good financial performance, solid financial resource cushion to debt for its rating category, and healthy liquidity. The rating also considers a moderate debt profile with potential new debt within the next 24 months, limited fund raising profile, and weakening support from the Commonwealth.

The strengths cited by Moody's include:

1. Past enrollment growth with a recent healthy demand from out-of-state students at 34%. They also noted the slight "dip" in enrollment in fall 2012.
2. History of positive operating performance, particularly in FY11 and FY12.
3. Solid financial resources and liquidity for NKU's rating level (A1).

The challenges cited by Moody's include:

1. Expectations for little or no growth in state appropriations resulting in a growing reliance on student tuition and fees for operating revenue. NKU needs to diversify its revenue base to reduce reliance on tuition.
2. NKU will be challenged to meet its enrollment growth plans given the increased competition and a slight decline in HS graduates in the state of Kentucky and Ohio. Rating could drop if we have any protracted decline in enrollment or deterioration of operating performance.

3. Additional borrowing beyond current expectations without offsetting financial improvements (this is in reference to the $50+ million in debt related to the CRC expansion and housing acquisition/renovation)

Moody's stated, "the outlook for Northern Kentucky University's A1 underlying rating is stable, reflecting our expectation of continued solid student demand and good operating performance which should generate sufficient cash flow to cover debt service, as well as healthy balance sheet growth that provides good coverage of debt." It should be noted that Standard and Poor's recently changed NKU's outlook from stable to negative because of the Commonwealth's financial problems, primarily the unfunded pension obligation which will also impact NKU significantly.

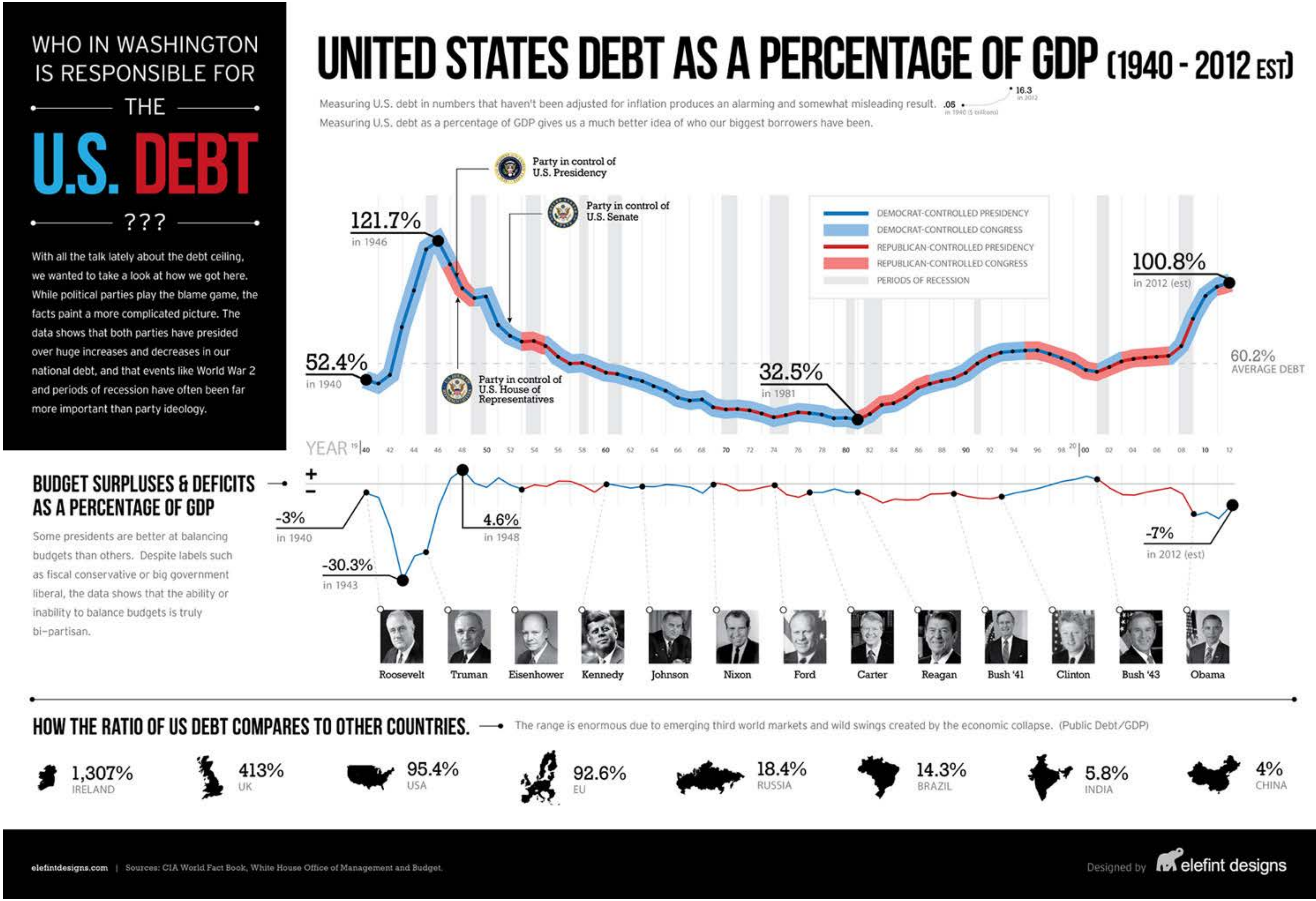
Conclusions

The fiscal, economic, and political environment will continue to be formed over the planning horizon by the push to increase educational attainment levels in order to remain economically competitive. Nationally, we will continue to experience federal efforts to advance this initiative with limited, if any, additional funds (on a per student basis). In Kentucky, we will experience a similar impact due to the State's fiscal problems. These drivers will influence our future in the anticipated ways as identified in this paper as well as ways we are not able to anticipate at this time. Will there be a shift in the political climate that will drive new revenues both nationally in the State? What innovations will succeed in significantly improving productivity in the academic sector? What will be the competitive impact of increased funding for higher education in states without the fiscal challenges faced by Kentucky? The workgroup believes there are opportunities for NKU in this new environment if the university is able to innovate, focus, and perform at high levels.

Appendix

Fiscal, Economic, & Political Environment

Federal


WHO IN WASHINGTON IS RESPONSIBLE FOR THE U.S. DEBT ???
With all the talk lately about the debt ceiling, we wanted to take a look at how we got here. While political parties play the blame game, the facts paint a more complicated picture. The data shows that both parties have presided over huge increases and decreases in our national debt, and that events like World War 2 and periods of recession have often been far more important than party ideology.
UNITED STATES DEBT AS A PERCENTAGE OF GDP (1940 - 2012 EST)
Measuring U.S. debt in numbers that haven't been adjusted for inflation produces an alarming and somewhat misleading result.
Measuring U.S. debt as a percentage of GDP gives us a much better idea of who our biggest borrowers have been.
.05
16.3
Party in control of U.S. Presidency
Party in control of U.S. Senate
Party in control of U.S. House of Representatives
DEMOCRAT-CONTROLLED PRESIDENCY
DEMOCRAT-CONTROLLED CONGRESS
REPUBLICAN-CONTROLLED PRESIDENCY
REPUBLICAN-CONTROLLED CONGRESS
PERIODS OF RECESSION
121.7%
in 1946
52.4%
in 1940
32.5%
in 1981
100.8%
in 2012 (est)
60.2%
AVERAGE DEBT
YEAR
BUDGET SURPLUSES & DEFICITS AS A PERCENTAGE OF GDP
Some presidents are better at balancing budgets than others. Despite labels such as fiscal conservative or big government liberal, the data shows that the ability or inability to balance budgets is truly bi-partisan.
-3%
in 1940
-30.3%
in 1943
4.6%
in 1948
-7%
in 2012 (est)
Roosevelt
Truman
Eisenhower
Kennedy
Johnson
Nixon
Ford
Carter
Reagan
Bush '41
Clinton
Bush '43
Obama
HOW THE RATIO OF US DEBT COMPARES TO OTHER COUNTRIES.
The range is enormous due to emerging third world markets and wild swings created by the economic collapse. (Public Debt/GDP)
1,307% IRELAND
413% UK
95.4% USA
92.6% EU
18.4% RUSSIA
14.3% BRAZIL
5.8% INDIA
4% CHINA
elefintdesigns.com | Sources: CIA World Fact Book, White House Office of Management and Budget.
Designed by elefint designs

Federal Financial Aid Overview

Pell Grant Program

- Data from the Federal Student Aid (FSA) Office of the U.S. Department of Education (ED) show a 59% increase in the number of students applying for federal assistance from 2006-2007 award year compared to 2010-2011 award year (18.8M compared to 29.8M respectively).
- The total amount of federal student aid awarded to students under Title IV of the Higher Education Act (HEA) jumped from $64.0 billion to an estimated $169 billion, in a 10 year period (2000-2001 to 2010-2011). For 2010-2011, the Title IV programs accounted for 72% of the $235 billion in total financial aid received by college students as reported by data from the FSA Office of ED.
- In additional to Title IV programs, the federal government offers other financial assistance programs such as tuition tax credits and tax-advantaged education savings accounts (including the Coverdell Education Savings Account).
- The Federal Pell Grant program provides grant assistance to low-income undergraduates with the greatest demonstrated financial need.
- According to data collected from the U.S. Department of Education, the number of Pell Grant recipients for 2009-2010 was approximately 8.1 million and the average award was $3,706. More than 76% of Pell Grant recipients had family income below $30,001 and a median family income of $16,300.
- The total Pell Grant volume during the 2010-2011 award year was $34.8 billion.
- During the appropriations process, Congress establishes the minimum and maximum Pell Grant award levels. In 2011-2012 the grant ranged between $555-$5,550 and for the 2012-13 the grant ranged between $577-$5,500.
- According to The College Board's Trends in Student Aid Report, 2011, over the past 10 years, the number of Pell Grant recipients increased by 133%, and the average award grew by 49% in inflation-adjusted value.
- The maximum Pell Grant has risen from $3,125 to $5,550, which is only a $2,400 increase over 10 years. The increase in Pell grant dollars has helped cover the cost for tuition and fees, however tuition continues to outpace inflation.
- According to The College Board's Trends in College Board Report, 2011, tuition and fee charges grew 8.3% at four-year public institutions and 4.5% at private, not-for-profit institutions from 2010-2011 to 2011-2012. The average 2011 inflation rate was 3.2%.

NKU NORTHERN KENTUCKY UNIVERSITY

Federal Financial Aid Overview

Federal Supplemental Educational Opportunity Grant

- The Federal Supplemental Educational Opportunity Grant Program is a camp-based federal program that provides grants to financially needy undergraduates.
- The primary purpose of the FSEOG program is to supplement the aid students receive from other sources.
- Administrators at postsecondary institutions use federal guidelines to determine which students will receive awards and how much they will receive.
- Students who are awarded the FSEOG must have “exceptional” financial need. The grant must be awarded to students with the lowest expected family contribution (EFC) – starting with a zero EFC and then moving upward. The minimum grant award is $100 and the maximum is $4,000.
- In the 2009-2010 award year, approximately 2.6 million undergraduates received FSEOG awards. The average award was $666.
- Data from the U.S. Department of Education show over the past decade, the FSEOG program has seen a 36% increase in number of recipients, but the average award has fallen by 11%.
- Northern Kentucky University received $282,184 in FSEOG funds for the 2012-13 and received a tentative funding level of $273,376 for the 2013-14 which represents a cut of $8,808.
- The impact of the sequestration on the FSEOG program for NKU is an estimated cut of $25,328.

Federal Work-Study Program

- The Federal Work-Study (FWS) program provides part-time jobs to undergraduate, graduate and professional students at postsecondary institutions.
- FWS is a campus-based aid program. Administrators at postsecondary institutions use federal guidelines to award FWS. Generally aid from FWS earnings supplement the assistance students receive from federal Pell grants and other sources.
- Students may hold FWS during the academic year and during the summer. It is the desire for the FWS to relate to the student’s program of study, but that is not a requirement.
- In award year 2009-2012, approximately 733,000 students received FWS awards. The average award was $1,700.
- In 2009-2010, 44% of dependent undergraduate FWS recipients came from families with income below $42,000. The median family income of dependent undergraduate recipients was $45,700 in 2007-2008 (according to the National Center of Education Statistics).
- Northern Kentucky University received $441,067 in FWS funds in the 2012-13 year and received a tentative funding level of $417,945 which represents a cut of $23,122.
- The impact of the sequestration on the FWS program for NKU is an estimated cut of $25,454.

NKU NORTHERN KENTUCKY UNIVERSITY

Federal Financial Aid Overview

Federal Perkins Loan Program

- The Federal Perkins Loan Program provides low-interest loans to financially needy undergraduate, graduate and professional students. This is a campus-based aid program.
- The Federal Perkins Loan Program is administered by postsecondary aid administrators who use federal guidelines to determine which students will receive awards and how much they will receive.
- Unlike the other campus-based aid programs, students must repay Federal Perkins Loans. Interest of the loan accrues at a rate of 5% and students generally go into repayment nine months after a student graduates, leaves or falls below half-time enrollment.
- The annual and life-time loan amounts are determined by the U.S. Department of Education. Annual amounts are based on academic grade level.
  - Undergraduate - $5,550
  - Graduate and Professional - $8,000
- Funds to support the Federal Perkins Loan Program come from three different sources: federal appropriations (known as Federal Capital Contributions or FCC, matching funds from the institution equal to one-third of the FCC and the repayments of Perkins Loans from previous borrowers. There has not been any new FCC since 2006.
- Repayments from pervious Perkins Loan borrowers are used to make new Perkins Loans to current and future borrowers.
- The total amount of the revolving Perkins Loan fund for all participating institutions is approximately $6 billion.
- Data from The College Board, Trends in Student Aid, 2011 indicated that in 2010-2011, institutions issued about $970 million in Federal Perkins Loans from their revolving funds.

NORTHERN KENTUCKY UNIVERSITY

Federal Financial Aid Overview

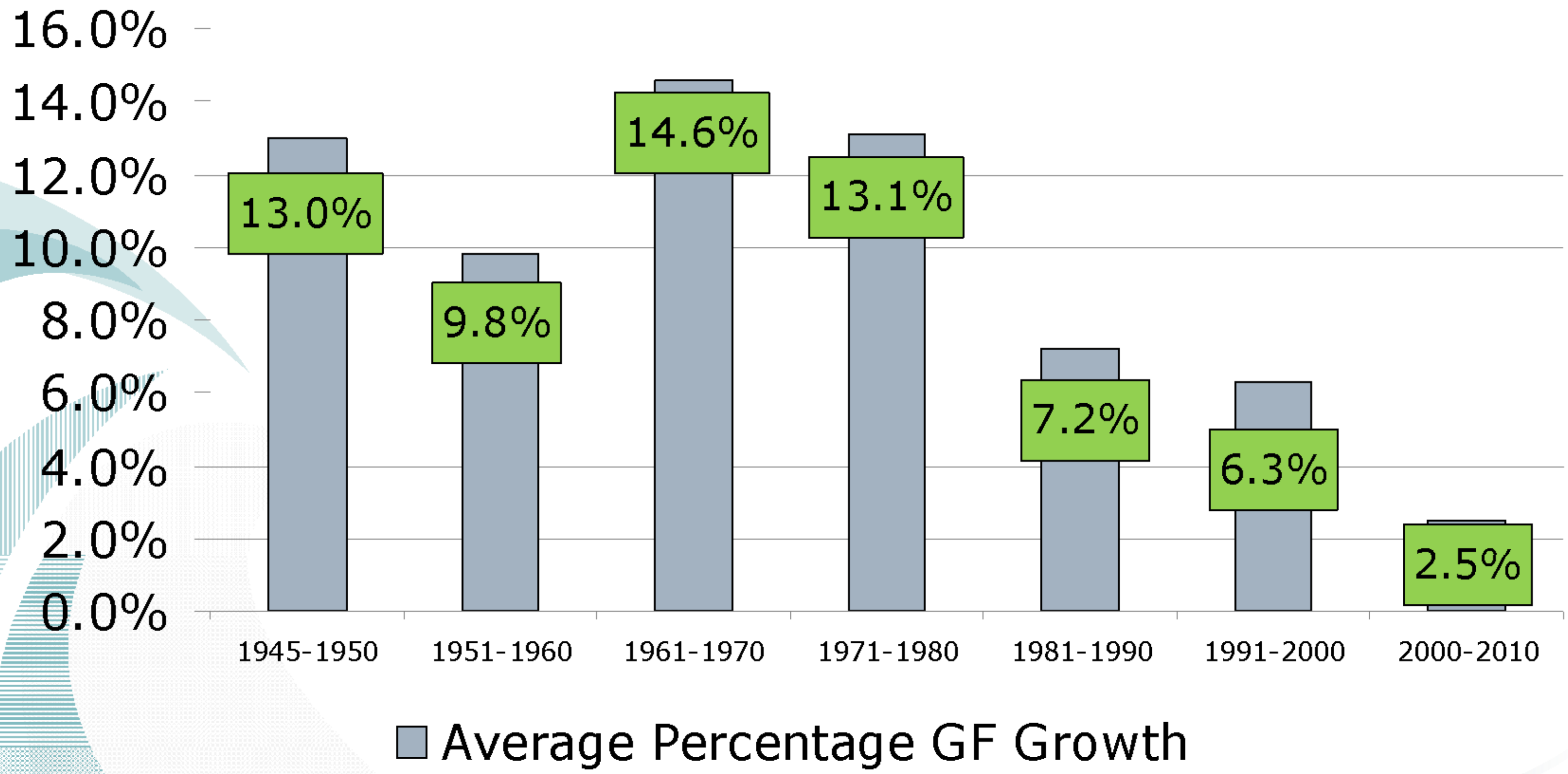
William D. Direct Loan Program

- The William D. Ford Direct Student Loan Program provides low-interest loans to undergraduate and graduate/professional students and their parents to help assist with meeting educational costs. Loans are considered "entitlements", which means that all eligible and qualified borrowers may receive the program funds and benefits, subject to Congressionally-defined Limits.
- The annual maximum amount of subsidized loans students may borrow varies by academic grade level. As of July 1, 2007:
    - First-year undergraduates - $3,500
    - Second-year undergraduates - $4,500
    - Third & Fourth year undergraduates - $5,500
- After July 1, 2012 subsidized loans were eliminated for all graduate and professional students (they could borrower annually $8,500 – unsubsidized loan).
- The maximum cumulative amount of subsidized loans for undergraduates is $23,000 and the maximum amount of all levels of student (undergraduate & graduate/professional combined) is $65,000. These amounts are considered "base" limits.
- The other type of Federal Direct Student Loan program is the unsubsidized loan which works similar to subsidized loans, but the borrower is responsible for paying all interest that accrues.
- Data from The College Board shows that the volume of Subsidized Stafford Loans borrowed grew to 92% in a ten year period since the 2000-2001 award year, while the data shows the volume of Unsubsidized Stafford Loans and PLUS borrowers jumped 197% and 267%, respectively.
- According to The College Board, in 2010-2011 undergraduate and graduate/professional students borrowed an estimated $104.0 billion through the FFEL and DL programs. Almost $46.1 billion was provided to Federal Unsubsidized Stafford Loan recipients, $39.7 billion to Subsidized loan recipients and $17.1 billion to PLUS borrowers.
- The most recent national student loan cohort default rate for students who enter repayment within three years is 13.4%, compared to NKU's cohort default rate of 10.9%
- In the 2011-2012 NKU administered nearly $87M in federal loans.
- There may be a correlation between economic challenges, specially the unemployment rate and students ability to repay student loans.
- NKU may want to exam current student loan counseling practices with the goal of enhancing existing practices and developing new initiatives with the focus being placed on "borrowing wisely" and reducing loan debt.

NKU NORTHERN KENTUCKY UNIVERSITY

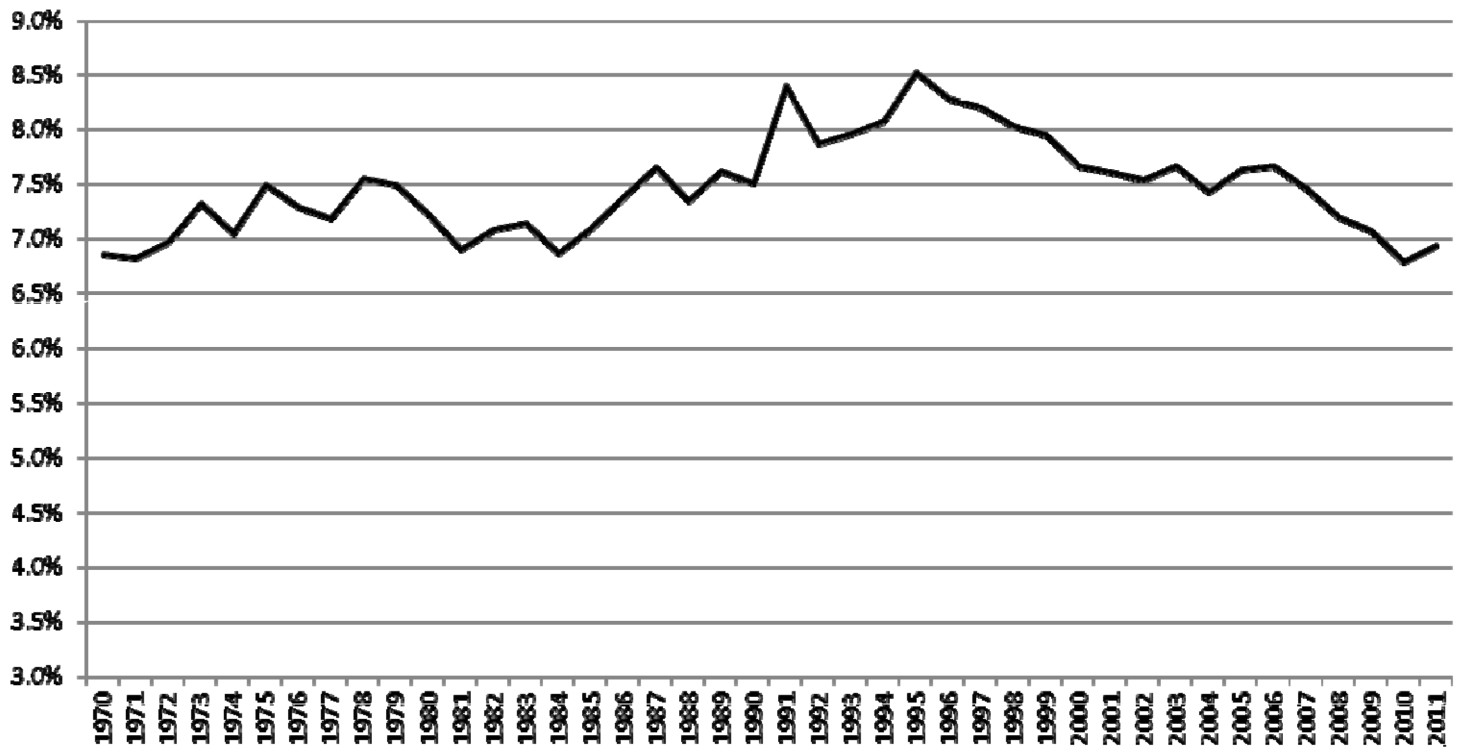
State

General Fund Revenue Growth by Decade



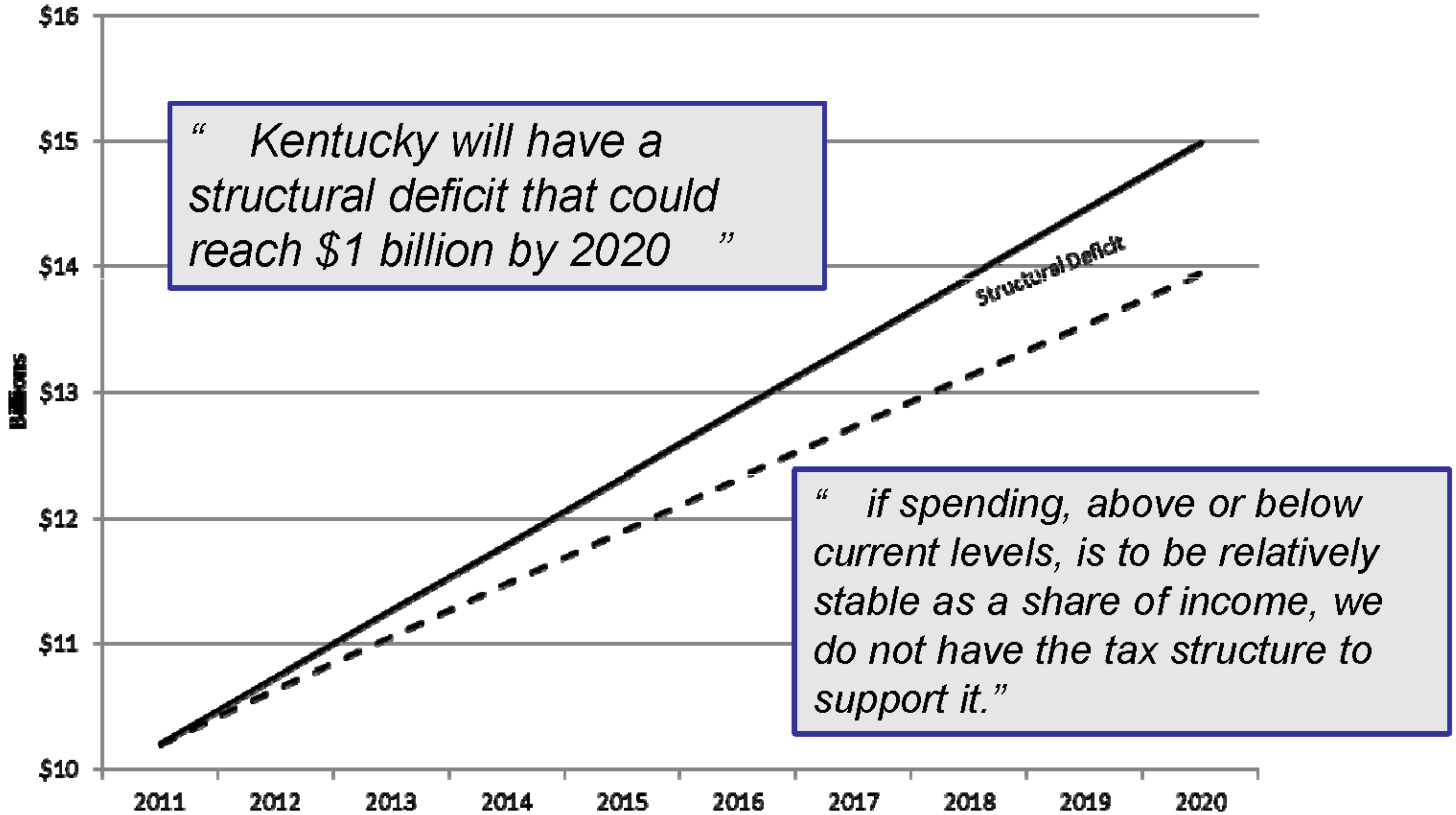
Source: Presentation "Governor Beshear's Blue Ribbon Commission on Tax Reform", Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor's Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

Kentucky Total State Tax Collections (% Income), 1970-2011



Source: Presentation "Governor Beshear's Blue Ribbon Commission on Tax Reform", Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor's Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

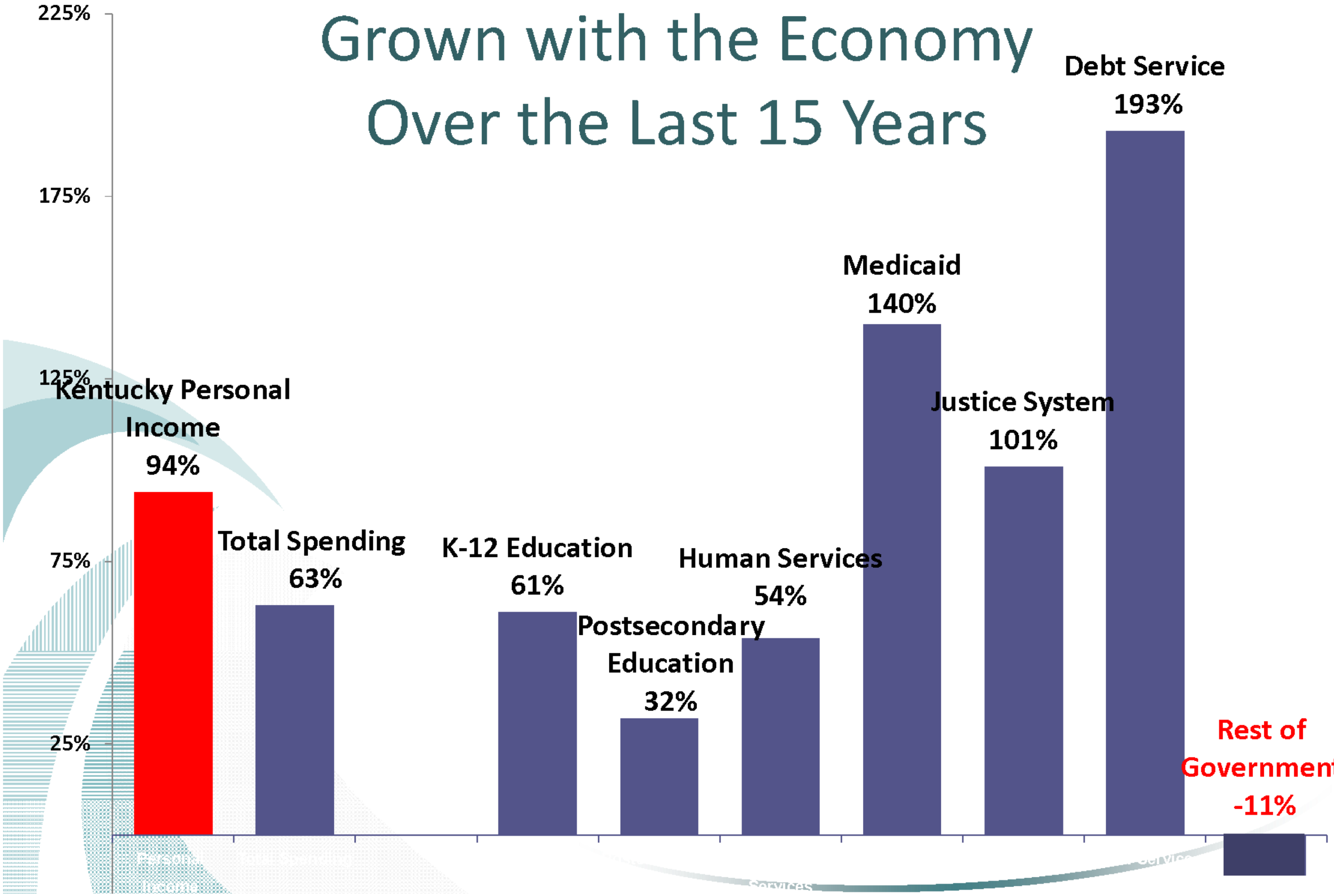
Adequacy & Elasticity: Simulated Kentucky Revenue



Source: Authors' calculations

Source: Presentation “Governor Beshear’s Blue Ribbon Commission on Tax Reform”, Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor’s Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

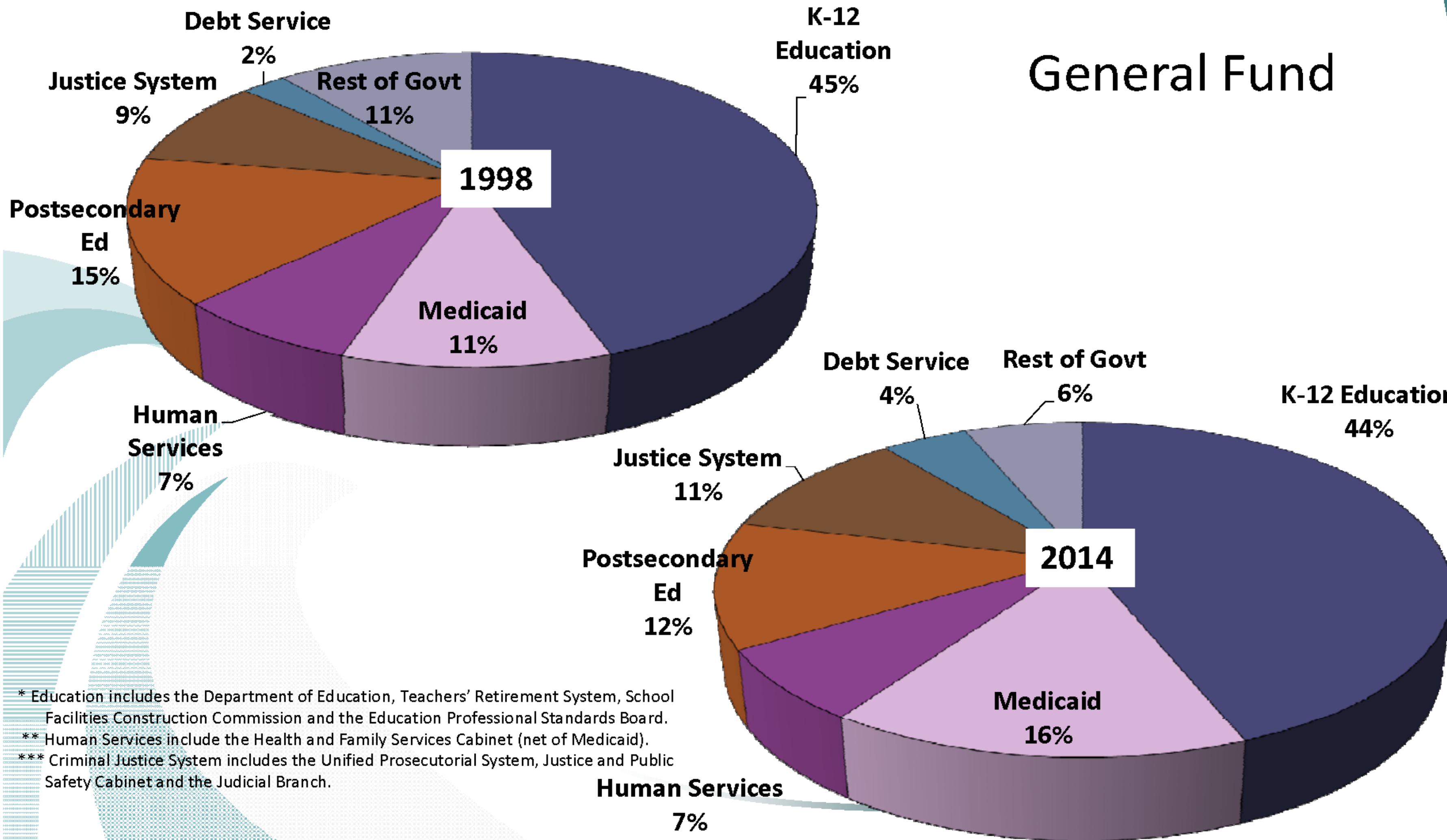
State Revenues and Spending Have Not Grown with the Economy Over the Last 15 Years



Source: Presentation "Governor Beshear's Blue Ribbon Commission on Tax Reform", Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor's Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

Changes in Spending from FY 98 to FY 14

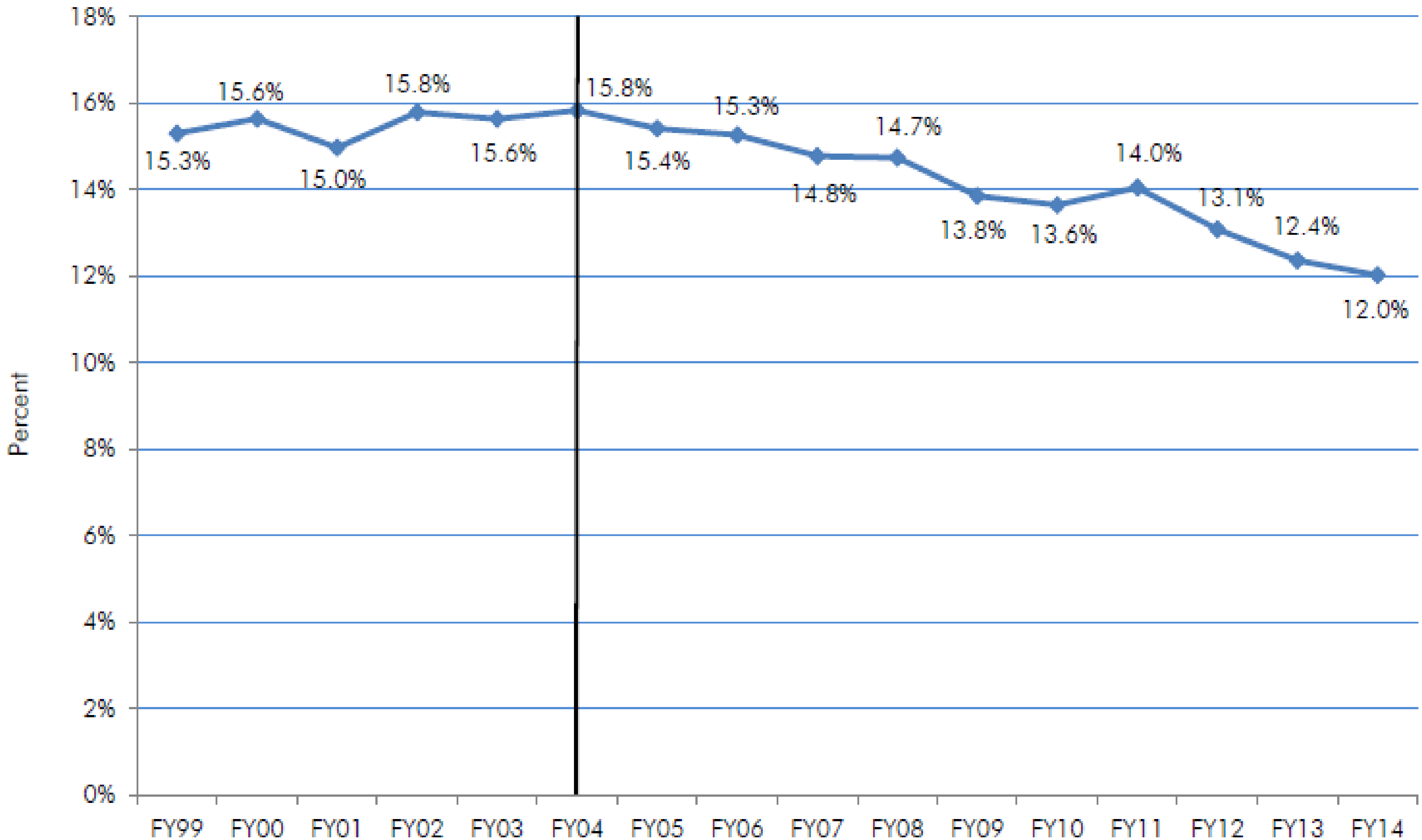
General Fund



* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.
** Human Services include the Health and Family Services Cabinet (net of Medicaid).
*** Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.

Source: Presentation "Governor Beshear's Blue Ribbon Commission on Tax Reform", Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor's Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

Kentucky Budget of the Commonwealth
Postsecondary Education's Share of Total State General Fund Budget



Source: Kentucky Enacted Budgets of the Commonwealth.

Kentucky Budget of the Commonwealth
Enacted General Fund Appropriations by Major Budget Category
Fiscal Years 1999 and 2014

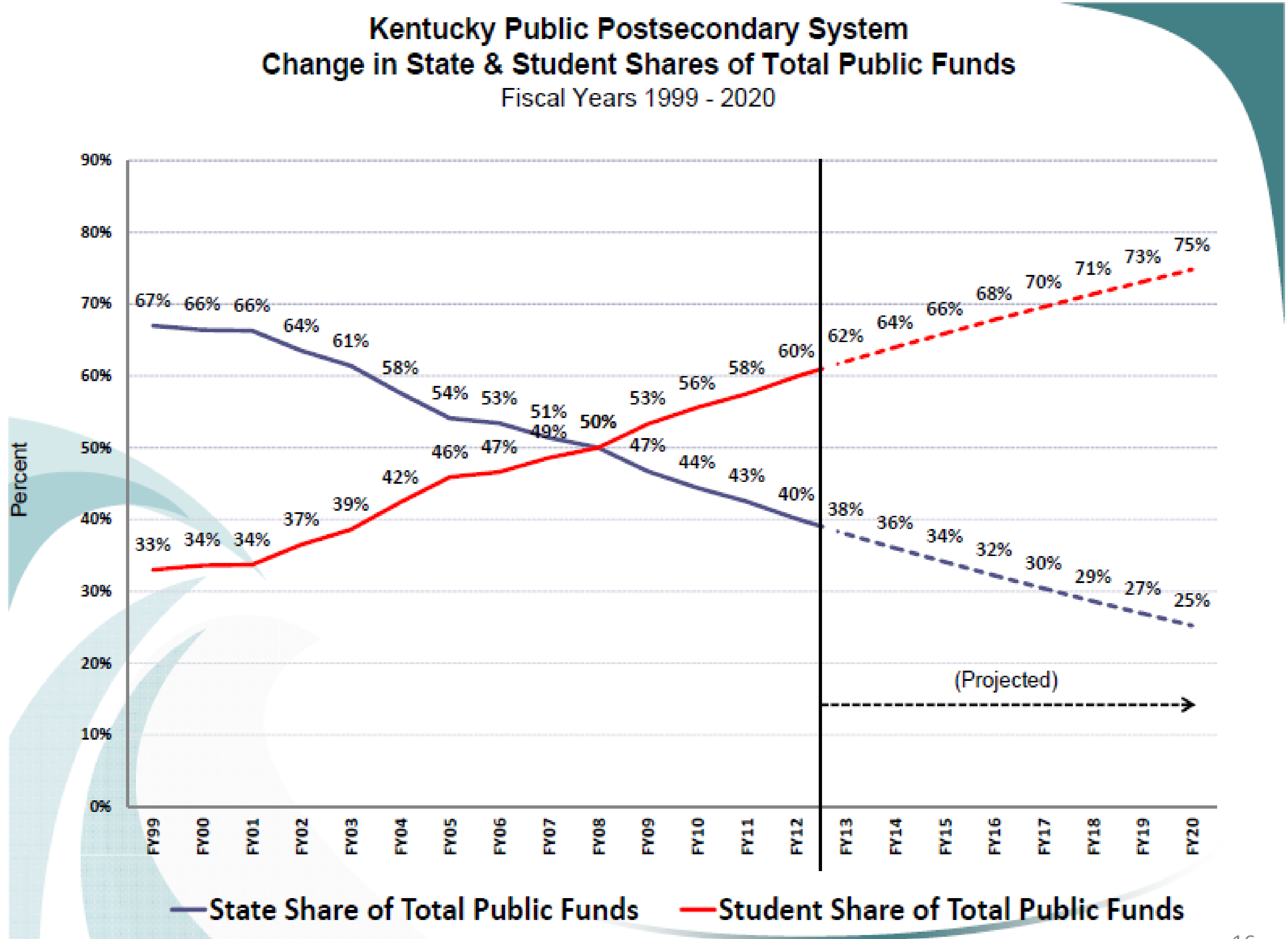
(Nominal Dollars in Millions)

Budget Category	1998-99 Enacted General Fund	2013-14 Enacted General Fund	Dollar Change	Percent Change
Education	$2,734	$4,254	$1,520	56%
Human Services	525	675	150	29%
Postsecondary Education [(1)]	945	1,176	230	24%
Institutions & CPE	915	986	71	8%
Student Financial Aid	31	190	160	522%
Medicaid	636	1,511	875	138%
Criminal Justice	586	1,042	456	78%
All Other	754	1,123	368	49%
Total Appropriations	$6,180	$9,780	$3,599	58%

The shaded area provides Postsecondary Education detail and is not double-counted in Total Appropriations.

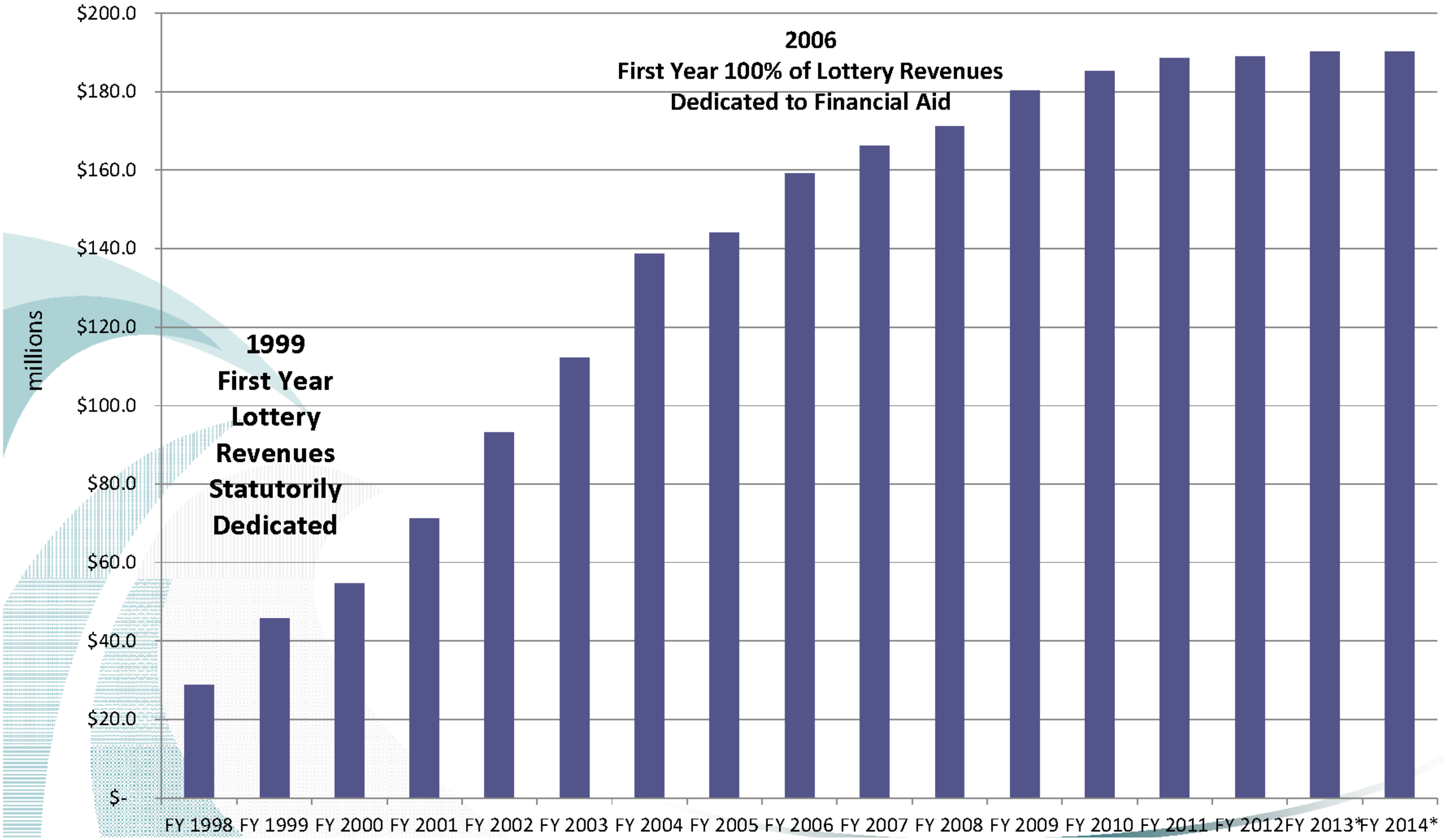
[(1)] Includes Kentucky's public postsecondary institutions, state-funded student financial aid (KHEAA), and the Council on Postsecondary Education.

Source: Kentucky Enacted Budgets of the Commonwealth.



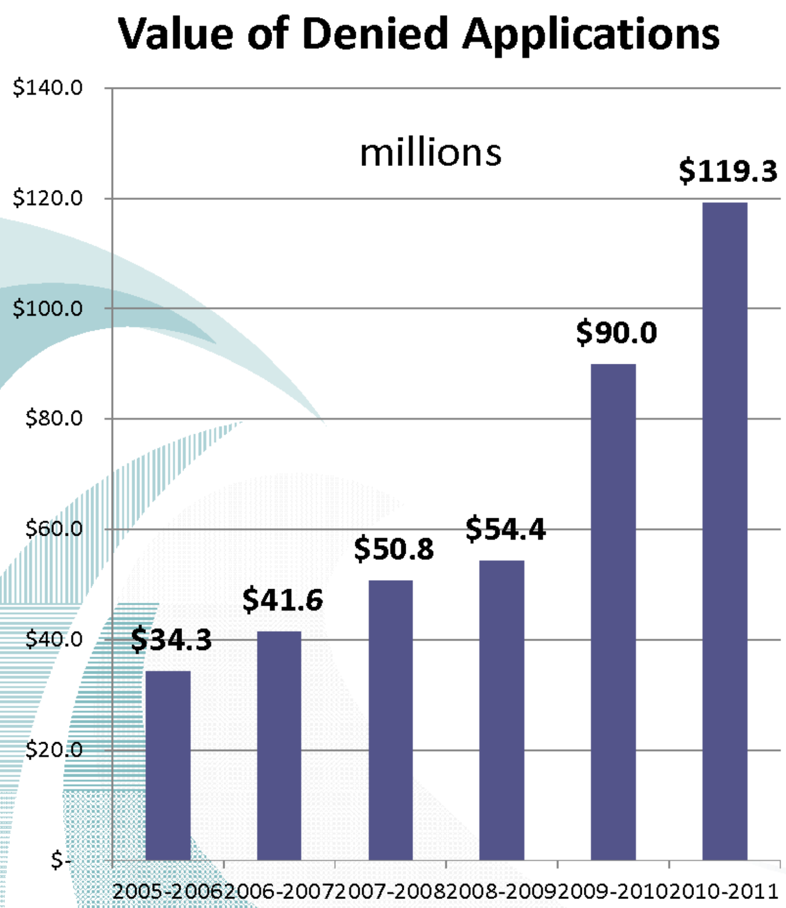
Kentucky Public Postsecondary System
Change in State & Student Shares of Total Public Funds
Fiscal Years 1999 - 2020
Percent
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
67% 66% 66% 64% 61% 58% 54% 53% 51% 50% 47% 44% 43% 40% 38% 36% 34% 32% 30% 29% 27% 25%
33% 34% 34% 37% 39% 42% 46% 47% 49% 53% 56% 58% 60% 62% 64% 66% 68% 70% 71% 73% 75%
(Projected)
FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20
State Share of Total Public Funds
Student Share of Total Public Funds

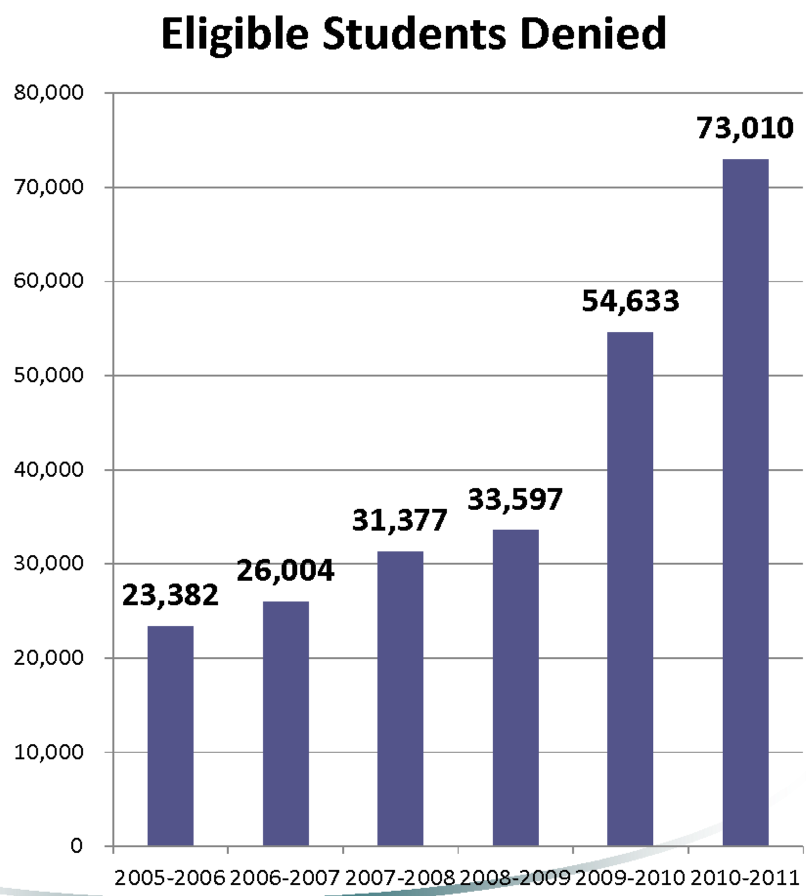
Financial Aid Funding Has Been Flat – Despite Growing Enrollment



Source: Presentation "Governor Beshear's Blue Ribbon Commission on Tax Reform", Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor's Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

Unmet Need for Need-Based Aid has Exploded





Source: Presentation “Governor Beshear’s Blue Ribbon Commission on Tax Reform”, Jerry Abramson, Lt. Governor, Chairman and Mary Lassiter, Secretary, Governor’s Executive Cabinet, to the Senate Committee on Appropriations and Revenue and House Committee on Appropriations and Revenue on February 5, 2013

Northern Kentucky University

NORTHERN KENTUCKY UNIVERSITY

University Finances

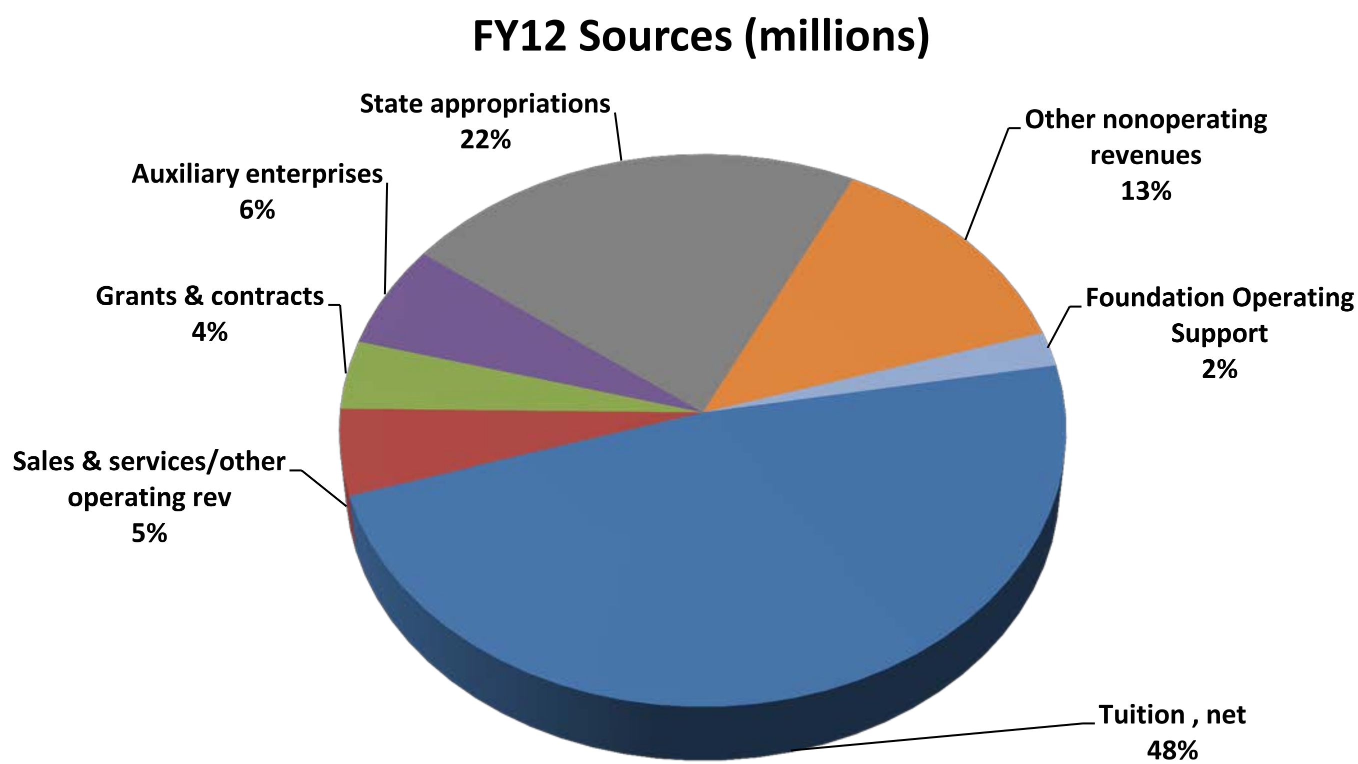
Operating Revenues/ Sources

- **Net Tuition and Fees (48%)** – Student tuition and fees have grown from 35% of NKU's total revenues in FY03 to 48% in FY12. This growth is primarily driven by tuition rate increases and a growth in graduate level programs and out-of-state/metro enrollment. Resident undergraduate enrollment dipped recently.
- **State Appropriations (22%)** - State appropriations have declined from 38% in FY03 to 22% in FY12. Our inflation adjusted state general fund appropriation per FTE declined from $3,639 in FY03 to $2,903 in FY12. We receive the lowest funding per student of any of the other comprehensive universities in the state. Our state appropriation per FTE is also less than our Moody's peer group and our national benchmarks.
- **Nonoperating revenue (13%) –** This major revenue source in this category is federal and state financial aid programs. After significant increases in Pell revenue in FY10 and FY11, Pell declined in FY12 and is down in FY13 YTD due to more stringent eligibility requirements. KHEAA CAP grants are down recently due to a cut in funding.
- **NKU Foundation Inc. Support (2%)** - The NKU Foundation, Inc. manages private gifts made in support of NKU with the oversight of a 39-member independent governing board. Over 95% of private gifts made have a restricted purpose (such as scholarships, professorships and university programs). A portion of those restricted purpose gifts are managed as permanently endowed gifts at the request of the donor. As of January 31, 2013, the market value of the endowment pool was $80.8 million. A rolling average is used to calculate spending from the endowment pool each year. For academic year 2013-2014, 4.1% of the endowment pool (as of June 30, 2012) will be available for spending—3.5% for the restricted purposes and .60% for administrative fees in support of the Foundation's operations. Non-endowed gifts are assessed a one-time gift fee up to 5%. University account holders oversee expenses from all Foundation accounts.
- **Other revenues combined (15%)** – Grant revenues, excluding federal earmarks, have averaged $8.265 million from FY07-FY12 while earmark grants have averaged $1.667 million the same period. Earmark grants are no longer being awarded. Auxiliary operations have increased as housing has grown and parking was converted to an auxiliary operation.

NKU NORTHERN KENTUCKY UNIVERSITY

University Finances

Figure 1- Sources of operating funds (FY12)



University Finances

Table 1- Sources of operating funds (FY03-FY12)

	FY03	FY06	FY09	FY12
Tuition , net	35%	40%	45%	48%
Sales & services/other operating rev	4%	6%	7%	5%
Grants & contracts	5%	5%	4%	4%
Auxiliary enterprises	4%	4%	6%	6%
State appropriations	38%	32%	27%	22%
Other nonoperating revenues	12%	11%	9%	13%
Foundation operating support	2%	2%	2%	2%
	100%	100%	100%	100%

University Finances

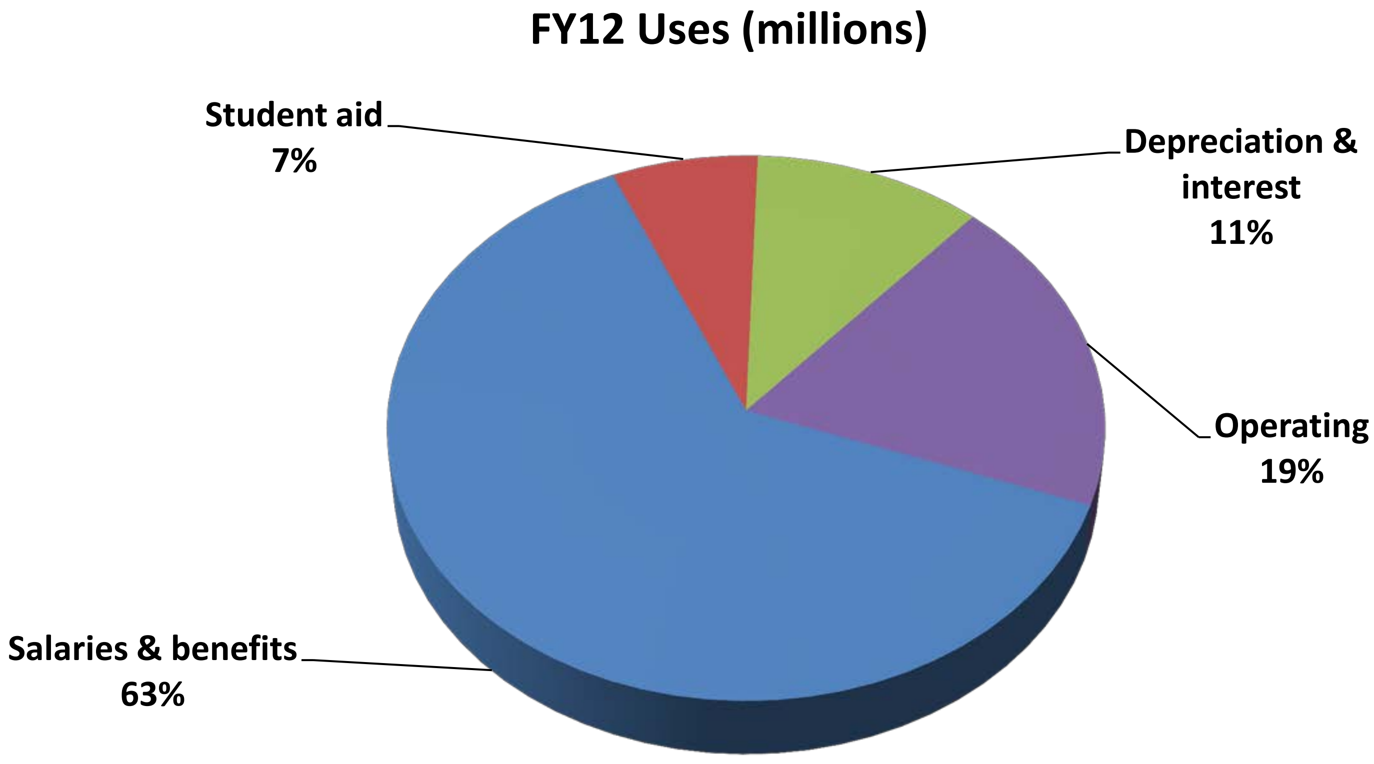
Operating Expenses/Uses

- NKU's total operating expenses per FTE were less than the other Kentucky comprehensive universities and our national benchmarks in FY11.
- **Salary and benefits (63%) –** Salary and benefit expenses represent nearly 2/3 of NKU's total operating expenses. Our total salary and benefits expenses per FTE were less than our benchmarks and other Kentucky comprehensive universities in FY11. Keeping salaries and benefits at competitive levels is a priority.
- **Financial Aid (7%) –** Federal and state aid has declined recently due to funding cuts and more stringent eligibility rules. Institutionally funded aid has increased to remain competitive.
- **Operating expenses (19%)** – Operating expenses per FTE are less than benchmarks and other Kentucky comprehensive universities . This is due in part to the fact that we have less student housing than our peers and we contract some auxiliaries that others self-operate.
- **Depreciation/Interest (11%)** – Refer to the following section on sources of capital funding.

NORTHERN KENTUCKY UNIVERSITY

University Finances

Figure 2- Operating Expenses (FY12)



University Finances

Table 2- Operating Expenses FY03, etc.

	FY03	FY06	FY09	FY12
Salaries & benefits	65%	66%	62%	63%
Student aid	8%	7%	6%	7%
Depreciation & interest	8%	8%	12%	11%
Operating	19%	19%	20%	19%
	100%	100%	100%	100%

University Finances

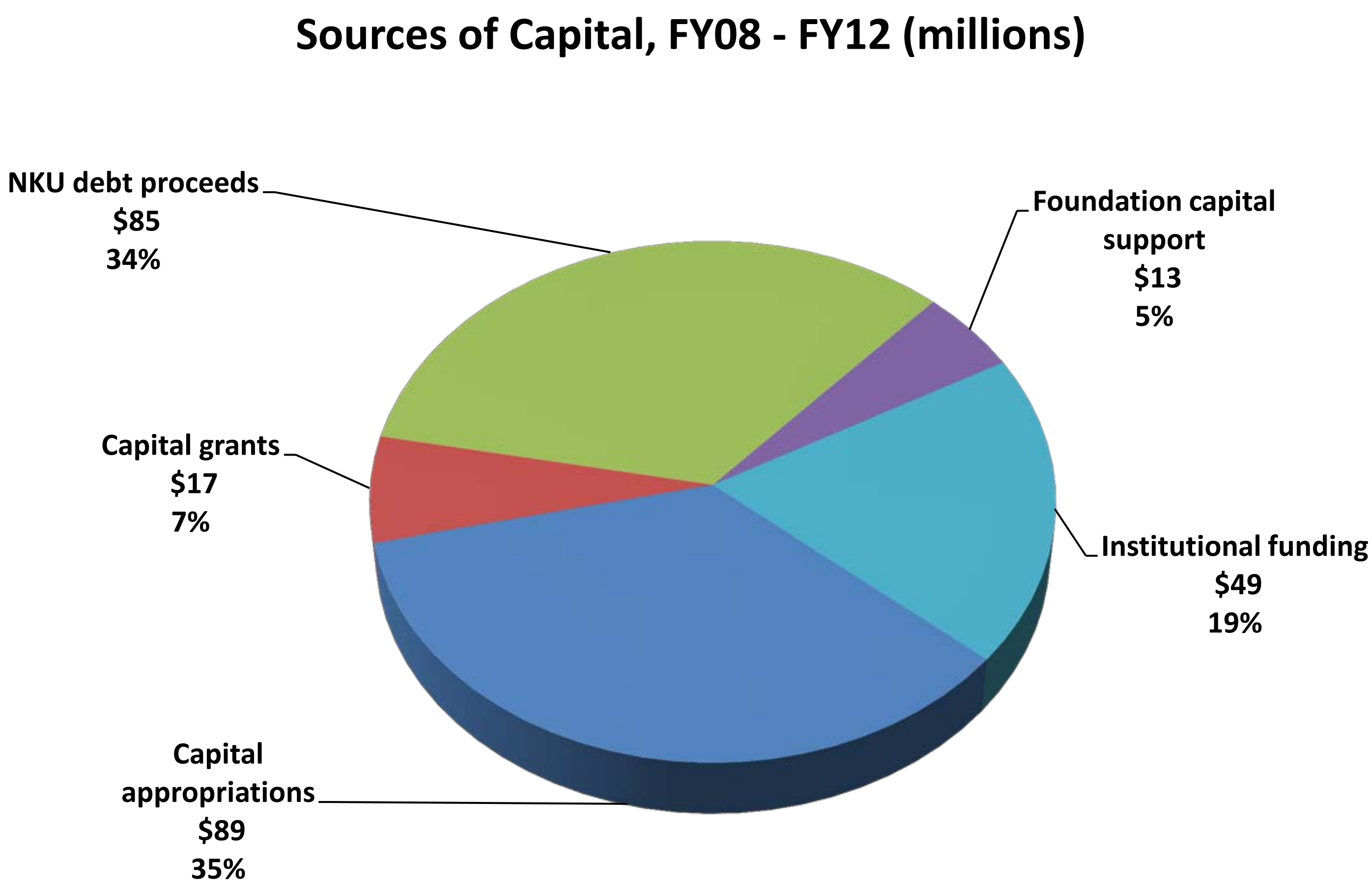
Sources/Uses- Capital for New Facilities/Renovations, Technology/Equip.

- The University funded the majority of the capital assets constructed/acquired during the five year period from FY08 – FY12. During this period we received state capital appropriations for the Bank of Kentucky Center ($54 million) and Griffin Hall ($35.5). We also received federal, state and local governmental capital grants totaling $17 million and private capital gifts totaling $13 million.
- NKU funded the majority of the capital assets ($134 million) during this period with cash and NKU bond proceeds. This included funding for the Bank of Kentucky Center and BOK garage, the Student Union and significant investments in technology and equipment as well as numerous facility renovations.
- Generating sufficient funds to properly maintain and/or expand the University's facilities and technology capacity will continue to be a challenge. CPE no longer funds facilities that they funded in the past. For example, the state funded our University Center and the Health Center; our students are funding the Student Union and the Campus Recreation Center through higher tuition and fees.
- The University needs to pursue all available avenues, including public, private partnerships etc., to meet our capital renewal and replacement needs in the future. NKU's bond capacity is limited and must be allocated based on the University's strategic goals.

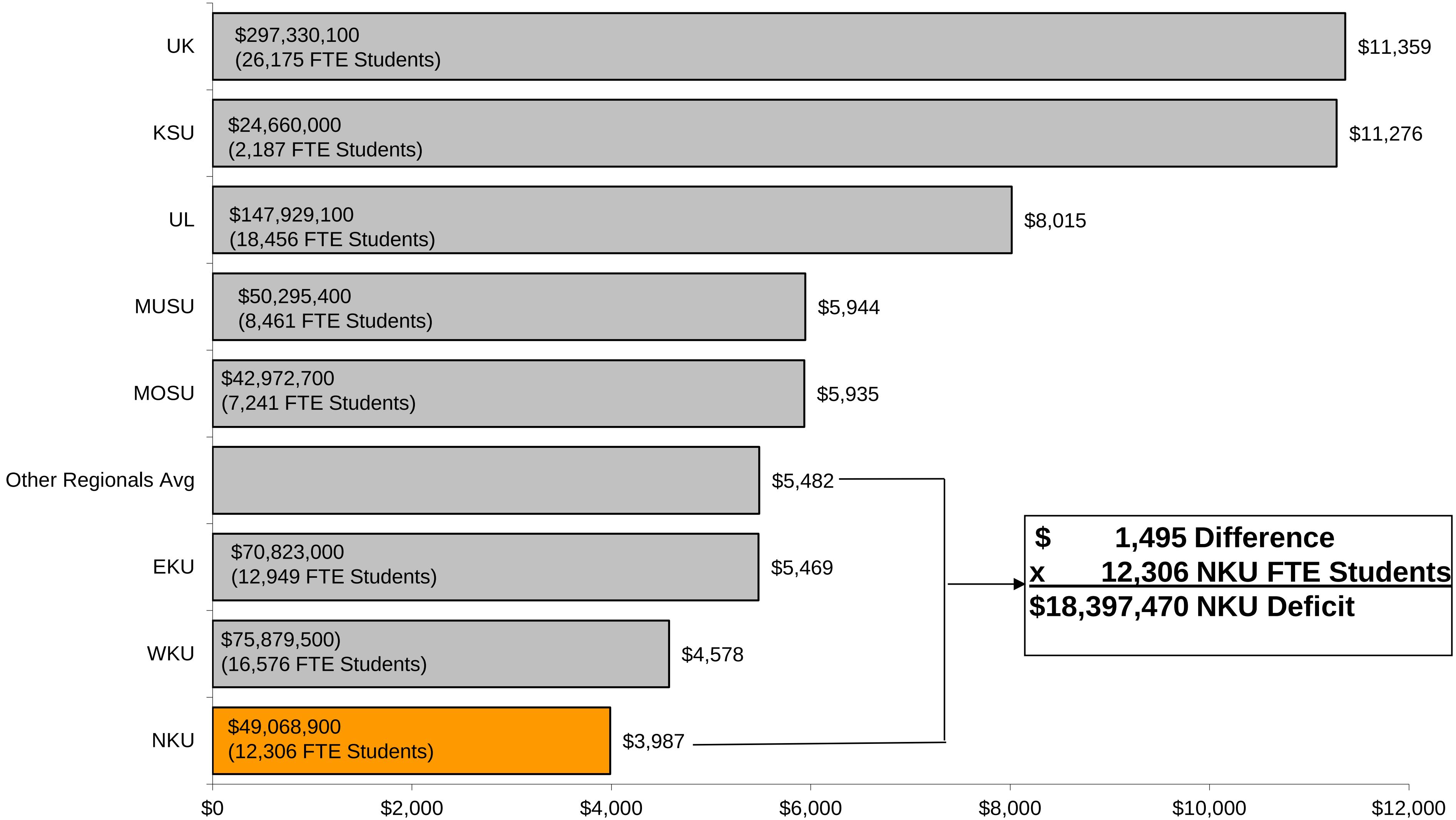
NORTHERN KENTUCKY UNIVERSITY

University Finances

Figure 3- Sources of Capital Funding

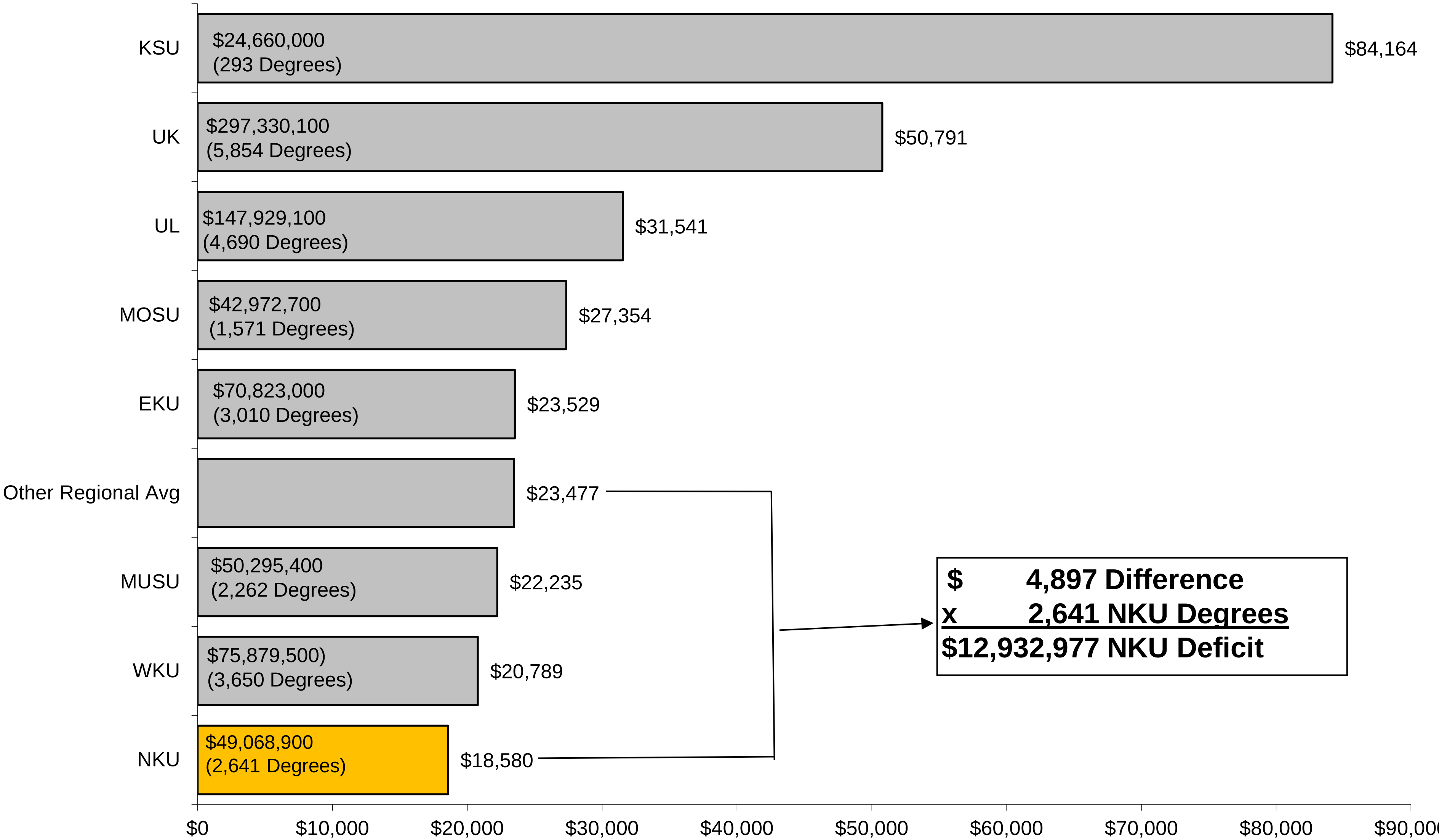


Net State Appropriation* Per Fall 2011 FTE Student



* Net State Appropriation = State Appropriation, Less Debt Service, Less UL Hospital
**FTE = Total Fall 2011 Semester Hours for Undergraduate s Divided by 15 and Graduate and Law Total Credit Hours Divided by 12

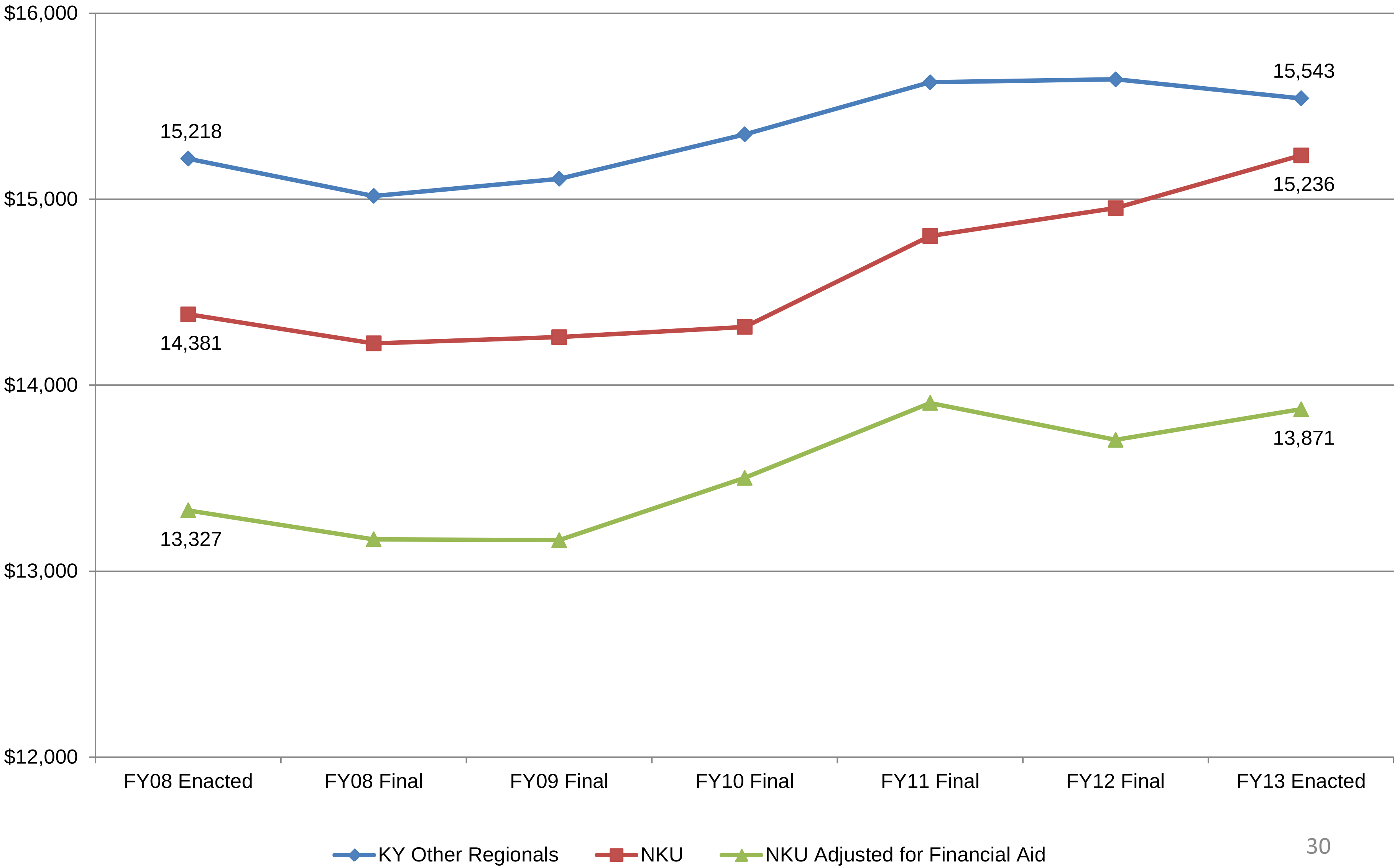
Net State Appropriation* Per Bachelor Degree and Above**
Four Year Institutions FY 2011-12



*Fiscal Year End Actual Net State Appropriation Less State Appropriated Debt Service and Less UL Hospital

**Degrees = Bachelor, Graduate, Doctoral, and Law (No Certificates) = Academic Year 2011-12

KY Public Regional Institutions
Inflation Adjusted Tuition Plus Net SA per FTE Student



Northern Kentucky University
Tuition And Fee Rate Comparisons

State Universities
Annualized 2012-2013 (15 credit hour rate)
Undergraduate

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
University of Kentucky	$9,816	University of Louisville	$23,146
University of Louisville	$9,662	Western Kentucky University	$21,000
Western Kentucky University	$8,472	Eastern Kentucky University	$16,464
Northern Kentucky University	$8,064	University of Kentucky	$19,997
Eastern Kentucky University	$7,320	Murray State University	$18,600
Morehead State University	$7,284	Morehead State University	$18,030
Murray State University	$6,840	Kentucky State University	$16,470
Kentucky State University	$6,858	Northern Kentucky University	$15,936
KCTCS (15 hrs a semester)	$4,200	Northern Kentucky University METRO	$12,744
		KCTCS (15 hrs/semester) (Contiguous Counties)	$8,400
Average of Comps (w/o NKU)	$7,355	Average of Comps (w/o NKU)	$18,113
NKU as % of Comps Average	109.6%	NKU NR as % of Comps Average	88.0%
		NKU - METRO as % of Average Comps	70.4%
Morehead Targeted Nonresident Annual Rate	$9,660		
Morehead Targeted Nonresident Annual Rate (2012)	$8,580		
EKU Targeted Nonresident Annual Rate	$11,856		

Northern Kentucky University
Tuition And Fee Rate Comparisons

State Universities
Annualized 2012-2013 (15 credit hour rate)
Graduate

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
University of Louisville	$582	Murray State University	$869
University of Kentucky	$592	University of Louisville	$1,210
Western Kentucky University	$459	University of Kentucky	$1,220
Northern Kentucky University	$452	Morehead State University	$1,018
Eastern Kentucky University	$440	Eastern Kentucky University	$770
Murray State University	$311	Northern Kentucky University-NR	$765
Morehead State University	$407	Kentucky State University	$582
Kentucky State University	$387	Northern Kentucky University - METRO	$554
		Western Kentucky University	$575
Average of Comps (w/o NKU)	$404	Average of Comps (w/o NKU)	$808
NKU as % of Average	111.8%	NKU - NR as % of Average Comps	94.7%
		NKU - METRO as % of Average Comps	68.6%

Northern Kentucky University

Tuition And Fee Rate Comparisons

State Universities

Per Credit Hour 2012-2013

Law

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
University of Kentucky	$947	University of Louisville	$1,694
University of Louisville	$885	University of Kentucky	$1,658
Northern Kentucky University	$637	Northern Kentucky University-NR	$1,354
		Northern Kentucky University - METRO	$1,030
Average (w/o NKU)	$916	Average (w/o NKU)	$1,676
NKU as % of Average	69.5%	NKU - NR as % of Average	80.8%
		NKU METRO as % of Average	61.5%

Northern Kentucky University
Tuition And Fee Rate Comparisons

Local 4-Year Universities and Colleges
Annualized 2012-2013 (15 credit hour rate)
Undergraduate

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
Xavier University	$32,070	Xavier University	$32,070
Wilmington College	$27,970	Miami University	$29,111
Thomas More College	$26,470	Wilmington College	$27,970
College of Mount St. Joseph	$25,100	Thomas More College	$26,470
Miami University	$13,547	University of Cincinnati	$25,816
University of Cincinnati	$10,784	College of Mount St. Joseph	$25,100
Wright State University	$8,354	Wright State University	$16,182
Northern Kentucky University	$8,064	Northern Kentucky University-NR	$15,936
		Northern Kentucky University METRO	$12,744
		University of Cincinnati - Metro	$10,964
Average (w/o NKU)	$20,614	Average (w/o NKU)	$24,210
NKU Resident as % of Average	39.1%	NKU Nonresident as % of Average	65.8%
NKU Metro as % of Average Resident	61.8%	NKU Metro as % of Average	52.6%

Northern Kentucky University
Tuition And Fee Rate Comparisons

Local Universities and Colleges
Per Credit Hour FY 2012-2013
Graduate

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
Miami University	$1,037	University of Cincinnati	$1,285
University of Cincinnati	$710	Miami University	$1,253
Xavier University	$588	Wright State University	$961
College of Mount St. Joseph	$540	University of Cincinnati - Metro	$860
Wright State University	$564	Northern Kentucky University-NR	$765
Northern Kentucky University - Resident	$452	Xavier University	$588
Wilmington College	$390	Northern Kentucky University - METRO	$554
		College of Mount St. Joseph	$540
		Wilmington College	$390
Average (w/o NKU)	$638	Average (w/o NKU)	$800
NKU Resident as % of Average	70.8%	NKU Nonresident as % of Average	95.7%
NKU Metro as % of Average Resident	86.8%	NKU Metro as % of Average	69.3%

NOTE: NKU Graduate rates represent non-business majors

Northern Kentucky University
Tuition And Fee Rate Comparisons

Local Universities and Colleges
Per Credit Hour FY 2012-2013
Law

Resident	Tuition & Fees 12-13	Non-resident	Tuition & Fees 12-13
Capital University	$1,147	University of Cincinnati	$1,711
University of Dayton	$1,072	University of Louisville	$1,694
University of Cincinnati	$981	University of Kentucky	$1,658
University of Kentucky	$947	Northern Kentucky University-NR	$1,354
University of Louisville	$885	Capital University	$1,147
Northern Kentucky University-Resident	$637	University of Dayton	$1,072
		Northern Kentucky University Metro	$1,030
		University of Cincinnati - Metro	$996
Average (w/o NKU)	$1,006	Average (w/o NKU)	$1,380
NKU Resident as % of Average	63.3%	NKU Nonresident as % of Average	98.1%
NKU Metro as % of Average Resident	102.3%	NKU Metro as % of Average	74.7%

University Budget Models

Northern Kentucky University

- NKU currently uses a combination of Incremental Budgeting and Initiative- Based Budgeting.
  - NKU currently takes its base budget (prior year budget) and increases it for fixed costs, strategic initiatives and merit (if funding permits).
  - Each vice president has full authority over his/her budget.
  - Our current budget process does not include the Research Foundation or the NKU Foundation.

Incremental Budgeting

- Definition: Each program's or activity's budget increases by a specific percentage.
- Advantages
  - It is simple to implement, easy to apply, more controllable, more adaptable, and more flexible than other budgeting models because of the general lack of emphasis on analysis.
  - It minimizes conflict because it treats all institutional components equally.
- Disadvantages
  - It assumes that the current distribution of resources across activities and program is optimal.
  - It assumes that a standard percentage increase will enhance each program or activity optimally.

NKU NORTHERN KENTUCKY UNIVERSITY

University Budget Models

Formula Budgeting

- Definition: is a procedure for estimating resource requirements based on the relationships between program demand and program cost (e.g. mathematical formulas and/or ratios).
- Advantages
  - The quantitative nature of most budget formulas gives them the appearance of an unbiased distribution.
  - The capacity to reduce uncertainty by providing a mechanism for predicting future resource needs and potential appropriation amounts.
- Disadvantages
  - Because it tends to rely on historical data, formula budgeting can discourage new programs or revisions to existing programs.
  - Formula budgeting creates an incentive to retain program or activities that contribute funding—even if they no longer contribute to the achievement of institutional mission, goals, and objectives.

Responsibility Center Budgeting

- Definition: classifies individual programs and units as either revenue or cost centers. Revenue centers controls the revenues they generate and are responsible for financing both their direct and indirect costs. Cost centers are funded from central reserves and taxes assessed on revenue centers.
- Advantages
  - Provides incentives for units to enhance revenues and manage costs.
  - RCB can help instill an awareness of the actual costs of relatively scarce campus resources (e.g. IT and space).
- Disadvantages
  - Users complain that it focuses on the bottom line and does not respond adequately to issues of academic quality or other priorities.
  - Another common complaint is that decisions made by individual units- though advantageous for the units themselves- may have negative consequences for the institution as a whole.

NORTHERN KENTUCKY UNIVERSITY

University Budget Models

Zero-based Budgeting

- Definition: assumes no budgets from prior years; instead, each year's budget begins at a base of zero.
- Advantages
  - Proponents contend they gain a much better understanding of their organization through the preparation and review of the decision packages.
  - Eliminates a protected budget base for each activity.
- Disadvantages
  - Preparing decision packages can consume significant amounts of time and generate a large volume of paperwork.
  - Agreeing on priorities is difficult.

Other Budgeting Approaches

- Initiative-based Budgeting- structured approach to distributing resources for new initiatives that support established priorities.
- Performance-based Budgeting- involves allocating resources based on a program's success on achievement of specific established targets. It focuses on outputs and outcomes.

Source:

- Goldstein, Larry. *A Guide to College & University Budgeting, Foundations for Institutional Effectiveness, 4th Edition.*

NORTHERN KENTUCKY UNIVERSITY