

## **Fiscal/Economic/Political Environment Workgroup March 8 Minutes**

**Meeting started in SU 109 at 2:00 p.m.**

**Members Present: Ken Kline (Facilitator), Natasha Dempsey, Russ Kerdolff, Karen Zerhusen Kruer, Erik Pederson, Rick Kolbe, Leah Stewart, Steve Nienaber, Ryan Salzman, Sue Hodges Moore, Don Gorbandt, Joe Wind (Writer), Eric Brose (Recorder)**

**Our last meeting is today. A final paper draft will be distributed by Ken to the committee on Thursday, March 14. Thanks to everyone for their commitment. There will be a ten minute presentation by Ken to the Strategic Planning Committee on March 20, 1 – 2:30 p.m. in SU 302.**

### **Regional and Local Considerations**

- Local legislator interest – Joe Wind is the expert on this one. (Local elected officials will be on campus in April for a strategic planning forum.)
- Tuition Pricing
  - NKU could increase tuition for in-state students with relatively minor losses in interest in attending. Responses to the NKU surveys suggest that raising tuition levels to \$9,000 would have relatively little impact on enrollments.
  - NKU has limited opportunity for tuition increases targeted to metro Ohio residents, and may see enrollment gains against UC by only reducing tuition levels.
- Town-Gown Relationship
  - The location of NKU in Highland Heights and Campbell County has positive economic implications for each of these entities. The economic effects of NKU on our local municipality and county should be recognized as a major economic engine and consequently quite important in shaping town/gown relationships.
  - NKU's Center for Economic Analysis and Development (CEAD) has conducted a number of studies to address the contribution NKU makes to the region and Highland Heights/Campbell County in particular. Three studies are important in this regard. First, a report dated January 2010 provides the economic and fiscal impacts of NKU on Highland Heights, Campbell County, and the State of Kentucky. Second, an economic impact study was conducted on the Bank of Kentucky Center. Lastly, an analysis was done on the economic impact of NKU students on the region. These reports need to be treated as three separate reports. One cannot aggregate the numbers up across the three reports since there would be some double counting of dollar contributions. On the hand, any of these reports on their own do not fully express the breadth of NKU's economic impact on the community. Yet, they provide some compelling data on the value of NKU to this region.

Some key findings in these studies: From an economic perspective, one can assess either direct spending (what is actually spent) and multiplier effects (what is done with the money initially spent and used by the seller to purchase other items).

- Per the December 2011 Student Spending Study:
  - NKU students spend approximately \$175,000,000 on retail, rent, restaurants, entertainment and social events, insurance, transportation fees and fares, cell phones, non-insurance covered healthcare, and childcare in the Northern Kentucky region. It is estimated that students expend \$75,000,000 of this total on retail spending alone. With consideration of the multiplier effect, total revenues for the region equal somewhat more than \$270,000,000.
  - CEAD's January 2010 report indicates that NKU Operations has the following impact on Highland Heights and Campbell County:
    - Campbell County Income Tax Revenues -- \$954,240
    - Highland Heights Income Tax Revenues -- \$908,800
  - CEAD's June 2011 report on the impact of the Bank of Kentucky Center on the region included the following:
    - **New influx of people (and new money) to the area due to the arena.** Of the 78,000 Bank of Kentucky patrons who came to events in 2009, more than 24,000 came from outside the Cincinnati metropolitan area. In 2010, the total number of patrons was 55,000, with more than 25,000 coming from outside the Cincinnati metropolitan area.
    - Individual from outside the region are estimated to have spent \$4.3 million in 2009 and \$4.5 million in 2010 (direct spending), with multiplier effects estimated to be in excess of \$8 million for both years. This spending undoubtedly helped local businesses.
- Communication
  - How do we communicate the university culture to the public including our legislators?
- Expectations of NKU's Role in the Community (Public engagement workgroup will also cover this)
  - Improve P-12 education (e.g. college readiness)
    - According to standards from the CPE, some of NKU's admissions standards fall below their criteria for "college ready". CPE College readiness indicators: ACT score are 18 for English, 19 for reading, and 20 for mathematics. NKU's admissions standards are 18 for each subtest. Additionally, some departments have higher ACT requirements to be admitted to their first introductory courses (e.g., Biology requires a mathematics ACT of 22).
    - Senate bill 1 puts college readiness at forefront of Kentucky's legislative agenda (2009). Senate Bill 1 is a significant piece of education legislation that revises the assessment and accountability system for K-12 education in Kentucky. It calls for a revision of standards to be based on national and

international benchmarks in order to increase the rigor and focus the content of K-12 education. The bill also addresses increasing the number of students that are college ready.

- Kentucky will be adopting the Next Generation Science Standards (NGSS). The NGSS are being developed through a collaborative, state-led process managed by Achieve. Kentucky is one of the partner states and have been participating in revisions. These new K–12 science standards will be rich in content and practice, arranged in a coherent manner across disciplines and grades to provide all students an internationally benchmarked science education. The NGSS will have an engineering component at all grade levels, teaching students to apply the scientific principles they are learning.
  - NKU CINSAM is taking the lead on professional development for our teachers to help them teach the NGSS. While the standards are not formalized yet, it is expected that they will be complete by August 2013 (although previous target dates have been extended). CINSAM is currently doing outreach in the form of the “Next Generation Science Classroom”. We have asked Toyota for funding to expand our current efforts into additional counties.
- Mathematics and the Kentucky Center for Mathematics have taken the lead in preparing Mathematics teachers to teach the mathematics core content.
- Economic and workforce development (e.g. renewed focus on science, technology, engineering, and mathematics (STEM) majors)
  - In a report entitled “Regional Indicators: 2020 Jobs Outlook,” Janet Harah projected the 2 occupations with the most opening and fastest growing are health care and computer science. The report also stated that nearly every high-paying, high-skills job requires education in STEM.
  - The **CPE (Council on Postsecondary Education) STEM Task Force** is comprised of representatives from the Governor’s Cabinet, higher education, K-12, CPE, KDE, both houses of the state legislature, professionals within the STEM disciplines, the business community and entrepreneurs.
  - Next Generation Science Standards (mentioned above)
  - Relationship between Highland Heights and NKU. NKU is the 2<sup>nd</sup> or 3<sup>rd</sup> largest employer.
- Cultural
  - NKU has great strength in the fine arts disciplines in terms of quality instruction, performance/exhibits and outreach. For example, The Department of Theater and Dance is considered the best in Kentucky.
    - Department students and faculty interacts with nearly 50,000 K-12 students and community members (Ken Jones, Department Chair)
- Other?

- What does the move to Division I do for the community?

## Citations

Colleges Lose Pricing Power, The Wall Street Journal. January 9, 2013.

[http://online.wsj.com/article/SB10001424127887324442304578231922159602676.html?mod=wsj\\_valettop\\_email](http://online.wsj.com/article/SB10001424127887324442304578231922159602676.html?mod=wsj_valettop_email)

With college costs sky high, more opt for community college, CincySchoolZone. 2013.

[http://www.cincyschoolzone.com/dpp/colleges\\_universities/college\\_news/with-college-costs-sky-high-more-opt-for-community-college](http://www.cincyschoolzone.com/dpp/colleges_universities/college_news/with-college-costs-sky-high-more-opt-for-community-college)

A Generation Hobbled by the Soaring Cost of College. New York Times. May 12, 2012.

[http://www.nytimes.com/2012/05/13/business/student-loans-weighing-down-a-generation-with-heavy-debt.html?\\_r=1&](http://www.nytimes.com/2012/05/13/business/student-loans-weighing-down-a-generation-with-heavy-debt.html?_r=1&)

Economic and Fiscal Impacts of Northern Kentucky University on Highland Heights, Campbell County and the State of Kentucky, Center for Economic Analysis and Development, Haile/US Bank College of Business (2011).

The Bank of Kentucky Center Economic Impact (Fiscal Years 2009 and 2010), Center for Economic Analysis and Development, Haile/US Bank College of Business (2011).

Economic Impact of Northern Kentucky University's Student Expenditures, Center for Economic Analysis and Development, Haile/US Bank College of Business (2010).

CPE College readiness indicators, <http://cpe.ky.gov/NR/rdonlyres/78B3510A-CECD-4157-8F20-3E3499707DAA/0/CollegeReadinessIndicators.pdf>

Kentucky Senate Bill 1. <http://cpe.ky.gov/policies/academicinit/senbill1/>

Website for the Next Generation Science Standards, <http://www.nextgenscience.org/>.

Regional Indicators: 2020 Jobs Outlook, Janet Harrah. Presentation to the Kentucky Legislature Subcommittees on Appropriations & Revenue and Postsecondary Education, Northern Kentucky University, September, 2012.

Website for the Kentucky STEM Task Force. <http://stemconnector.org/state-by-state/kentucky>

**Discussion:** Local officials may think tuition is too much, but they understand the challenge of tuition pricing. We seem to be in good standing with the Chamber of Commerce. We're in good standing with regional constituents. There are other groups in the region facing budgetary issues and people see NKU growing so that could be a problem. However, Gateway may be in the spotlight more right now. The challenge is that the river cities want generators of economic development and so Gateway's redevelopment is seen as greatly beneficial. NKU is further from the river. Local legislators' constituents may not understand that if NKU doesn't receive funding, other regionals (not Gateway), will. Great pride in the BOKC, but does that offset investments in the community? There's the sense that if it isn't in a specific community (of the 38 NKY ones), then it is not as valuable.

It's not so much education as the specific communities' economic needs. Law school in Covington would have taken the spotlight off of Gateway. There were promises of investment at that time from the community, but that did not happen.

## University Finances/Budget

### Current financial position overview

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:

- 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.
- History of positive operating performance, particularly in FY11 and FY12.
- Solid financial resources and liquidity for NKU's rating level (A1).

The challenges cited by Moody's include:

- 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.
- 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.

- 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.

### **Operating Revenues/Sources (Figure 1, Table 1):**

- **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 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.

### **Operating Expenses/Uses (Figure 2, Table 2):**

NKU's total operating expenses per FTE were less than the other Ky. Comps. 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 Ky. Comps 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 Ky. Comps. This is due in part to the fact that we have less student housing than our peers and we contract some auxiliaries that other self-operate.
- **Depreciation/Interest (11%)** – Refer to the following section on sources of capital funding.

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

#### **(Figure 3):**

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 Ky. 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.

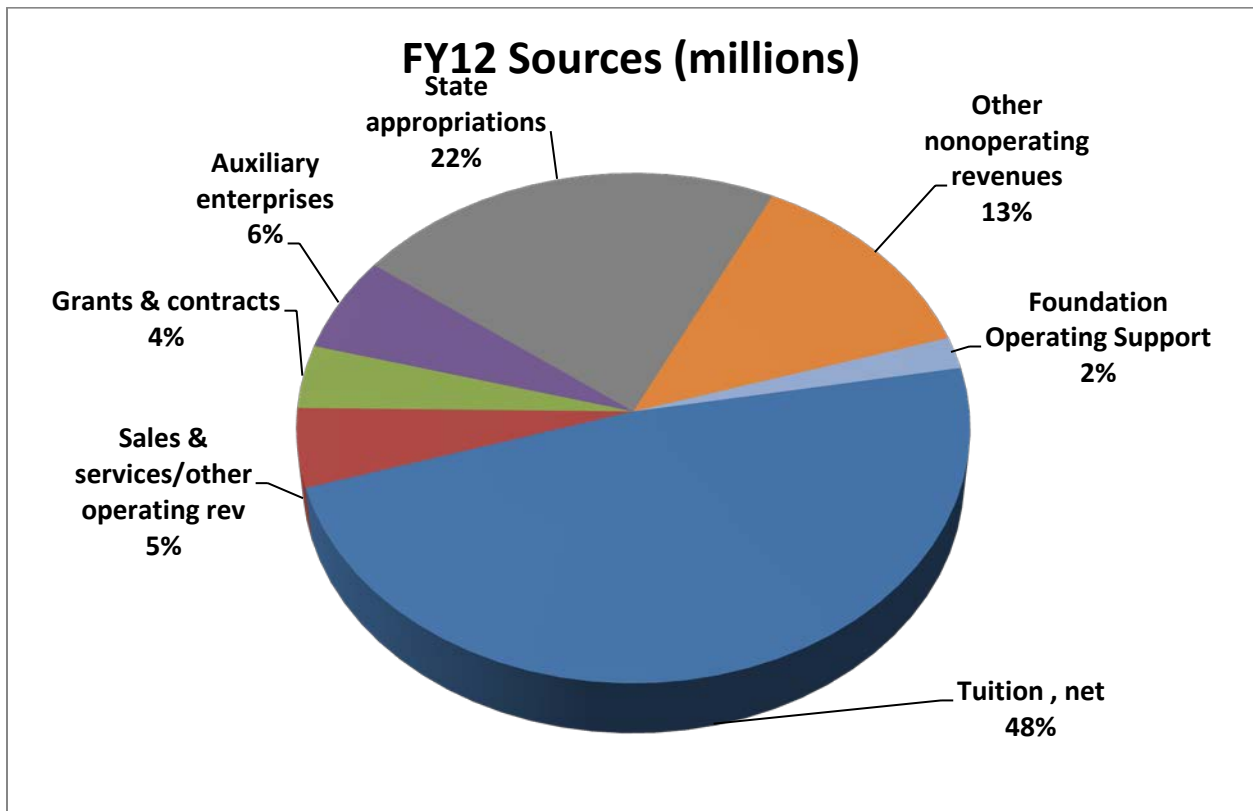
NKU funded the majority of the capital assets (\$134 million) during this period with cash and NKU bond proceeds. This included funding for the Bank of Kentucky Center and BOK garage, the Student Union and significant investments in technology and equipment as well as numerous facility renovations.

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.

**Figure 1 – Sources of operating funds – FY12**

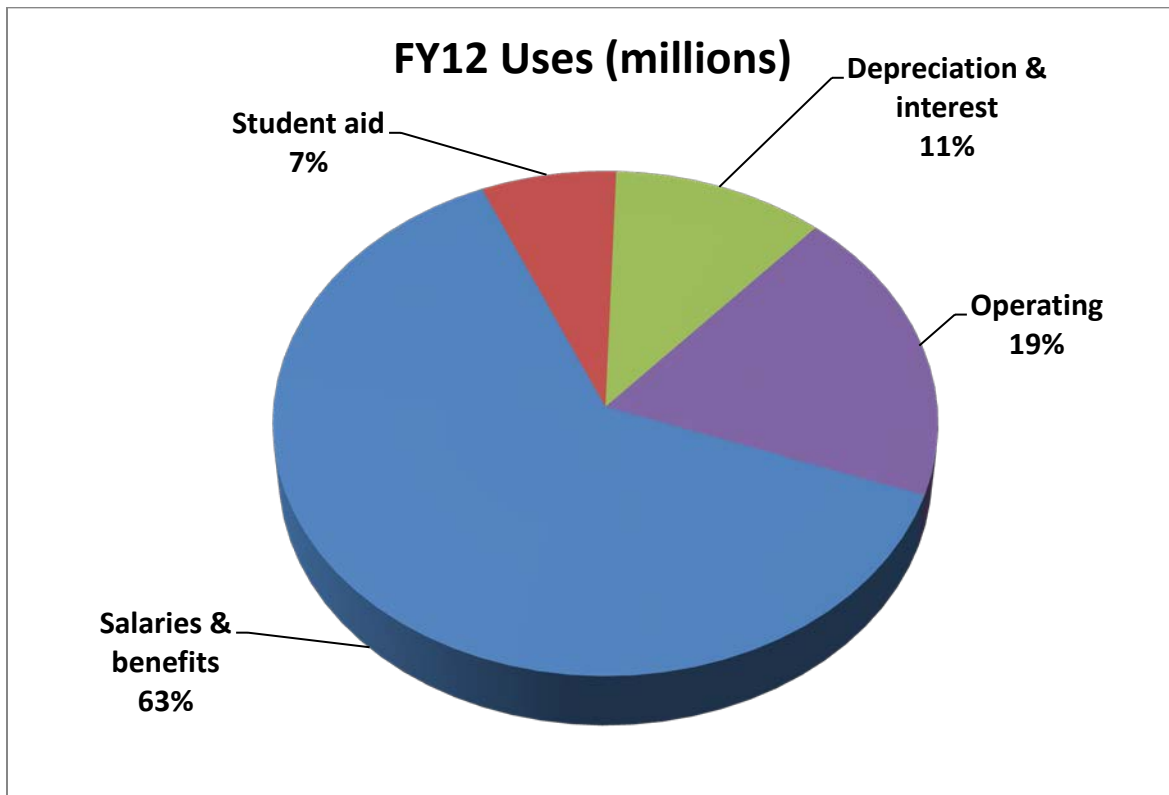




**Table 1 – Sources of operating funds trend – FY03 – FY12**

	<b>FY03</b>	<b>FY06</b>	<b>FY09</b>	<b>FY12</b>
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%

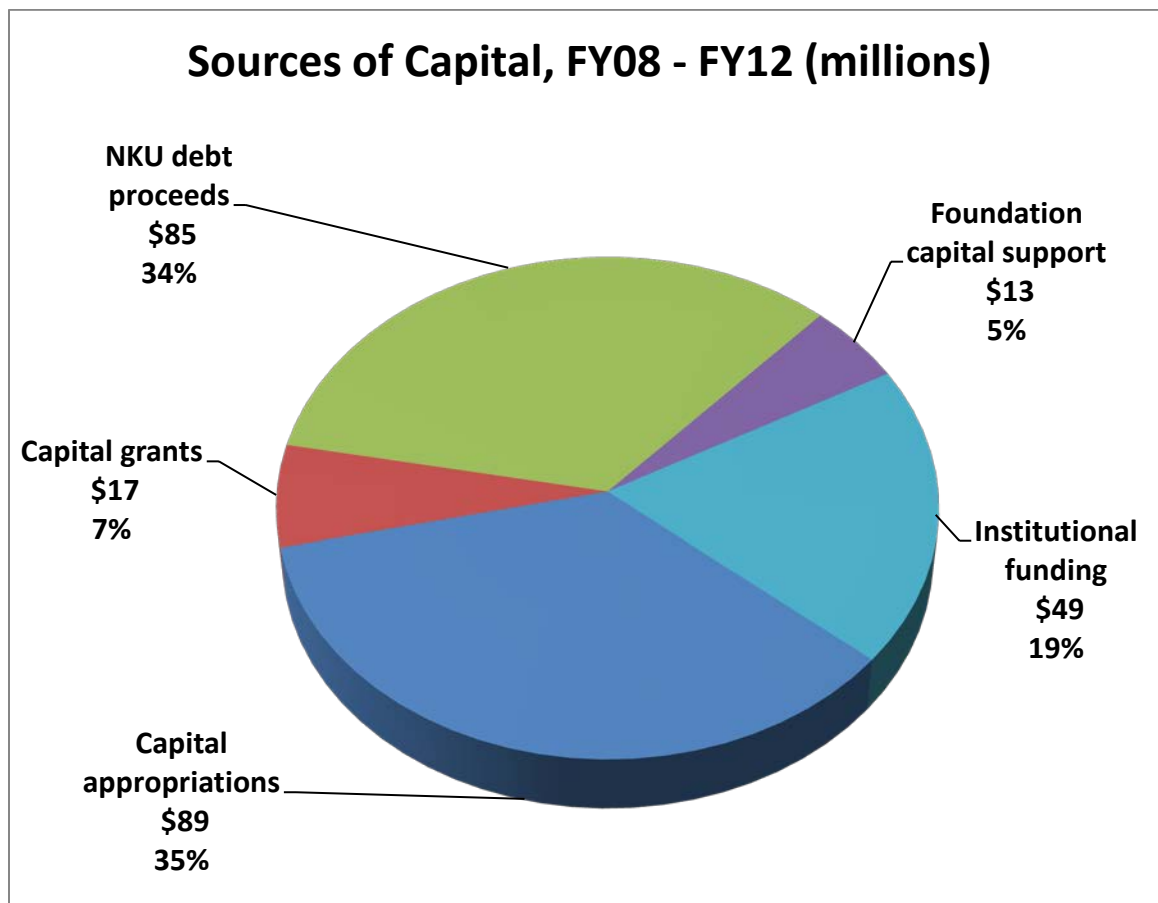
**Figure 2 – Operating Expenses FY12**



**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%

**Figure 3 - Sources of Capital Funding**



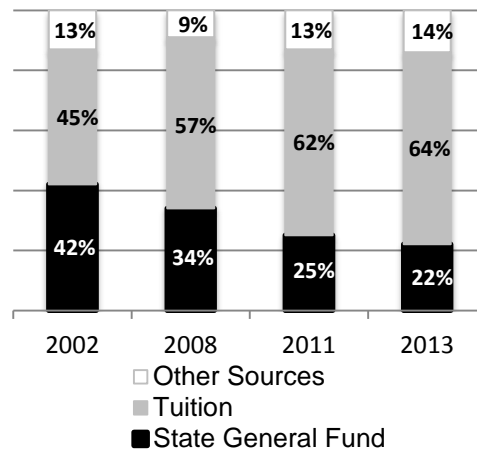
## NKU Foundation

- 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.

## University Budget- Sources

- Tuition is NKU’s #1 funding source, followed by state appropriations. 11 years ago, the state appropriations were NKU’s #1 funding source.
  - In FY01-02, tuition was approximately 45% of our budget and state appropriations were 42%.
  - In FY12-13, tuition is approximately 64% of our budget and state appropriations are 22%.

### KY general fund contributions provide 22% of NKU's budget



- Other Revenue Sources consist of Auxiliaries (6%), Campus Recreation Mandatory Fee (1%), Sales and Services of Educational Activities (2%), and Other Sources (4%).
- Key Issues
  - NKU is highly dependent on Tuition. Without increasing tuition and/ or increasing enrollment, how can NKU generate revenue for operation?

- NKU currently operates with the fewest state dollars per student than any of Kentucky's four year institutions. Will a new funding formula be implemented based on performance/ outcomes?

### **University Budget- Uses**

- Personnel services and benefits are NKU's #1 expense (63% of total budget).
  - Staff Payroll-\$45M (\$1M PT, \$44M FT); Faculty Payroll- \$50M (\$4M PT, \$46M FT); Student Payroll- \$3M; Benefits- \$34M
- Operating, capital, and utilities equate for 20% of NKU's budget. Transfers (Debt Service) are 4%; Financial Aid is 7%; and Reserves equate for 5%.
- Key Expenditure Issues
  - Deferred Maintenance
    - NKU currently has a deferred maintenance backlog of \$300M. Some examples include: HVAC system upgrades, roofs, windows/doors, door hardware, electrical systems, lighting, interior finishes, etc. (The \$300M does not include parking, softscape, pavements, or residence halls.)
    - The state of Kentucky no longer funds M&O on new or university funded buildings. Over the last biennium, NKU reallocated over \$4.4M to fund M&O for new facilities.
  - Technology Costs
    - Griffin Hall alone requires an additional investment of \$2M in order to keep up with changing technology.
  - Benefit Costs
    - The Kentucky Retirement System (KRS) has a \$30 billion unfunded pension obligation. NKU could see a potential increase in its contribution by \$5 million in FY 2015.

### **Budget Models**

- 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.
- Attached is a summary of comprehensive budgeting approaches used in higher education. NKU's Budget Model goal would be to align its resources with its strategic plan.

### **Tuition Rates (Resident)**

- Among the state universities offering undergraduate programs, NKU ranks #4 (out of 7) for price.
- Among the state universities offering graduate programs, NKU ranks #4 for price per credit hour.

- Among the state universities, NKU has the cheapest law school rate per credit hour.
- When comparing local 4-year universities and colleges, NKU's undergraduate tuition is the least costly. NKU's graduate per credit hour charge is second cheapest, and its law school per credit hour charge is \$369 lower than the average price per credit hour charged.

### **Tuition Rates (Non-Resident)**

- The University of Cincinnati's metro rate is \$1,780 cheaper per year than NKU's metro rate.
- When comparing local universities and college, NKU is \$246 cheaper per credit hour than the average price charged.

### **Post-secondary Budget Models**

- Formula Budgeting- 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.
- Incremental Budgeting- 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.

- Responsibility Center Budgeting- 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.
- Zero-based Budgeting- 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.
- **Are there budgeting approaches that can be used in conjunction with the four models listed above?**
  - 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.

**Sources:**

- Goldstein, Larry. *A Guide to College & University Budgeting, Foundations for Institutional Effectiveness, 4<sup>th</sup> Edition.*
- FY2012-13 Annual Budget

## Discussion:

More contracts/grants could lead to greater revenue diversity and perhaps a better credit rating. Our fundraising capacity is not as large as others because we are a younger institution. Shift from state funding major capital projects (1968 – 2003) to students paying for major capital projects (2003 - ). There is a push by the legislature for online courses so that academic buildings can be avoided. Money is still present federally, but we'd have to have the people ready for those items, i.e. a strong research component in academics. Cyber security could be a focus for NKU. However, earmarks may return by 2018. We need to focus on applied research.

NKU Foundation strategic planning will occur after the NKU process so that it aligns. Fundraising usually is restricted by priorities. Future capital campaign's numbers haven't yet been determined. There is almost \$4 million in the budget for students to work.

NKU is leanest in FTE Faculty and Staff of the KY institutions. We have grown staff numbers, but we were historically low. CUPA data shows NKU as consistent in terms of faculty levels for the most part. Deans refer to national reported benchmarks. Adjuncts may be seen as a threat by faculty, depending on different institutions. Gender pay differences – is that us? Actually, demographics workgroup is looking at that.

UK uses RCB budgeting. OH residents face \$1,780 less in tuition than if they attended NKU.

Merit is a strategic initiative in the budget. Our incremental budgeting is minimal. Budget requests do not need to be submitted annually. Departments work from the previous year's budget.

## Federal Fiscal / Economic Issues

- Federal Student Aid Programs
  - **Federal 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 addition 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 \$1,400 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%.

#### **Federal Supplemental Educational Opportunity Grant Program**

- 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-Student 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 programs. 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.

### **Federal Perkins Loan Program**

- The Federal Perkins Loan Program provides low-interest loans to financially needy undergraduate, graduate and professional students. This program just as FSEOG and FWS 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 who 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 fall 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.

### William D. Ford Direct Student 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 borrow 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 Loan 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.

### **Discussion:**

The Student Financial Aid budget is around \$4,000/student in FWS. The total loans are around \$100 mill, but Perkins is .5 Mill. Would privately funded loans be helpful? No, it’s the federal loans that need further funding. 2006 – Feds decided in 2006 to limit loans. Default rate on Perkins at NKU is 25%, but it’s a small program. Direct Student loan is \$100 million. We need to examine loan entrance/exit counseling. Students don’t understand consequences of loan/credit card debt. There is \$87 mill in loans. Student Financial Aid doesn’t get an allocation. Students go through lenders.

The Federal government is considering elimination of Pell grants for less than full time and it already has a 6 year rule for Pell eligibility. NKU faces a \$50,000 loss next year in student employment eligibility funding for NKU. Employment opportunities in area mean that students are less likely to use campus employment. Students are living off their loans. This affects us when we announce our loan debt average = \$18K at NKU. We cannot refuse a student to borrow the federal limit.

States with guaranteed tuition rates dropped them because of the limits. Stacking issue and its order such as Northern Difference, which is final dollars. We can't reduce Pell because it is an entitlement. High need and high ability students do well here.

All of this information is available to the committee, whether it's highlighted in the final report or not.

**Meeting adjourned at 3:20 p.m.**

**Final Report will be out to the team on Thursday.**

**Other meetings/obligations: None for team. Ken will present at March 20 Strategic Planning meeting.**