

# EASTERN MICHIGAN UNIVERSITY

**Testimony of Kim Schatzel, Ph.D.  
Interim President, Executive Vice President and Provost  
Eastern Michigan University  
September 24, 2015**

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Good afternoon. It is my honor and pleasure to be here today to update you about Eastern Michigan University and where this great, 166-year old University stands today. The story of Eastern's most recent years is an important part of where it is positioned today and one that I am eager to share with you.

However, to begin, I want to recall that this past summer, when Eastern Michigan publicly announced its tuition increase, we failed to communicate that decision and its implications to this committee in advance of the announcement. I wish to provide my sincerest apologies and that of the University for not communicating the decision to exceed the state cap for tuition increases relative to performance funding eligibility. There is no excuse for this lack of communication and we deeply regret it.

The decision regarding the tuition increase was a very difficult one, and resulted from extensive and thoughtful deliberations.

The decision is but one part of a multi-pronged approach aimed at achieving a sustainable fiscal model for the University, while maintaining an affordable, accessible, high quality education that is central to Eastern's mission.

We very clearly understand the concerns voiced about this decision. At the core of those concerns stands the question, "Why did Eastern raise its tuition rate in excess of the state cap and, in doing so, forfeit \$1 million in performance funding from the state?"

We want to answer that question here today.

***The point where I will begin is with Eastern's current fiscal position and the effect of our recent tuition history.***

Today, Eastern's financial reserves stand at \$29.7 million, the second lowest among Michigan's public universities, behind only Lake Superior State University. A university's financial reserves are analogous to a savings account for a household. Considered that way, it is easy to see that more funds in reserves is better for the financial health of the institution.

EMU's reserves are far less than Michigan universities with similar student enrollments. For example:

- Central Michigan University has reserves of \$371.5 million, or 12 ½ times greater than Eastern.
- Grand Valley State University has \$277.8 million in reserves, or more than nine times greater than EMU.

A central reason that Eastern Michigan University's reserves are lower than similar peer universities in Michigan is simple: Eastern Michigan has held tuition down more than any other public university in the state over the last seven years. That is why, despite this year's increase, Eastern continues to be ranked 13<sup>th</sup> out of Michigan's 15 public universities when it comes to tuition costs.

# EASTERN MICHIGAN UNIVERSITY

In fact, since 2005-2006, **EMU has raised tuition far less and far slower than its Michigan peers**, resulting in a dramatically lower cost to our students.

In 2010-11, Eastern did something no university in this state had done for decades. The University froze tuition, mandatory fees, and housing rates in a nationally recognized 0-0-0 initiative. Students still benefit from the low tuition base created by that initiative, as well as Eastern's very low increases in subsequent years.

Said another way, Eastern Michigan University was practicing tuition restraint on behalf of its students well before the tuition cap and associated performance funding were instituted, and before it became an important topic for this legislature and for the state.

Moreover, Eastern primarily enrolls students who are residents of Michigan and make their home in Michigan after they graduate – approximately 90 percent of our student body comes from Michigan. We take pride in that fact, but it indeed has financial consequences. Because of our commitment to the education of Michigan students, the vast majority of our tuition dollars come from students paying in-state tuition, unlike other universities with large enrollments of out-of-state students who pay much higher out-of-state tuition that is not subject to the tuition cap. For example, the University of Michigan-Ann Arbor enrolls about 45 percent of its students from outside

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Michigan, with each out-of-state student paying \$43,000 in tuition last year.

**A second challenge we face at Eastern is to maintain and invest in our educational facilities in order to continue to provide contemporary, high-quality degree programs aimed at areas of great need, such as the STEM and health fields.**

Eastern Michigan is a 166-year old campus – the second oldest in Michigan – with almost \$300 million in deferred maintenance.

In order to provide our students with the highest value, the University recently **self-funded vitally needed capital projects**, such as the \$90 million Science Complex, which serves as the centerpiece of STEM education at Eastern. We also self-funded major renovations to the College of Health and Human Services, which houses high-demand health programs such as nursing, dietetics, our recently established Physician Assistant program, and the only accredited Orthotics and Prosthetics Program in Michigan. The O&P program graduates Michigan citizens trained as health professionals who help improve patients' functioning, decrease their pain, aid in their healing, as well as provide a replacement of a body part that has been lost due to trauma or disease.

Since 2008, Eastern has invested approximately \$237 million in such capital

improvement projects, of which only \$31 million came through the legislature's capital outlay process. The rest was self-funded. More than 94 percent of this spending was for academic and student building improvements and public safety.

# EASTERN MICHIGAN UNIVERSITY

I want to emphasize that these highly needed improvements align with our well-articulated goal of spending what is needed to ensure our academic programs meet the demands of today's economy and, most importantly, result in Eastern Michigan graduates providing vital talent to our state.

A tour of EMU's campus would spotlight this key distinction, namely that Eastern spends what is truly needed to accomplish the goal of growing and investing in high-demand academic programs, such as those in the health sciences, STEM, and allied health fields.

Prospective students are noticing these improvements along with Eastern's affordability, and are applying and enrolling at Eastern in record numbers. ***This fall's entering freshman class is the second largest in Eastern's 166-year history.*** Over the past five years, despite contrary demographic trends within Michigan, Eastern's freshman enrollment has grown 42%.

The freshman class that came to Eastern this fall is highly diverse – 23% of our incoming freshmen are African American and another 6% are Hispanic. The incoming class also features an improved academic profile:

- The average GPA of incoming freshmen is 3.3, up from 3.0 in 2010.
- The average ACT score for incoming freshmen is 22, which is a significant increase from the 2010 average of 21.

- The Honors College at Eastern has also doubled in size since 2011, and currently houses approximately 1,600 undergraduates.

***Coupled with our focus on tuition restraint and targeted capital spending to maintain and advance high-demand degree programs, the University has also practiced strong fiscal stewardship, all aimed at keeping college affordable.***

At Eastern, we clearly understand that approximately 80 percent of every dollar that we spend comes from the pockets of our students and the remaining 20 percent comes from the taxpayers of the State of Michigan. Over the past four years, 167 non-faculty positions have been eliminated, with a salary cost savings to the University of nearly \$9 million annually. This significant cost savings in administrative expense has been recognized by the state in the performance metrics.

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Eastern is also aggressively re-designing its employee benefits programs. The University recently changed one of its defined contribution retirement plans, resulting in savings of approximately \$450,000 per year. Three years ago, Eastern revamped several of its health benefit programs and achieved over \$1,000,000 in annual savings.

We continue to review all our employee benefits, and upcoming additional changes to several of the University's health plans are expected to save over \$550,000 per year when implemented in 2017.

An important goal for EMU is to attract and retain the highest quality employees and faculty by offering competitive

# EASTERN MICHIGAN UNIVERSITY

compensation and benefits packages, but we are relentless in our efforts to do so in the most cost-effective and efficient means possible.

Other parts of our programmatic efforts to reduce costs include energy savings. Since 2009, Eastern has reduced utility costs by more than \$5 million per year, in part by negotiating favorable pricing contracts for natural gas and investing in green improvements to our historic buildings.

***In conclusion, I would like to briefly review the accompanying materials I brought for you all today.***

The exhibits and charts we have provided offer a compelling and clear snapshot of Eastern's superior performance with regard to tuition cost, tuition restraint, and overall operating expenses, as well as its positioning relative to financial reserves.

***Exhibit 1*** in your packet illustrates the effect of our voluntary tuition restraint. In 2005-2006, our tuition was roughly equal to that of our peer institutions. Ten years later, our tuition is five to thirteen percent lower than our peers.

***Exhibit 2*** in your packet shows that, with our recent tuition increase, Eastern remains 13<sup>th</sup> out of 15 in tuition costs among Michigan's public universities.

***Exhibit 3*** shows our reserves compared to all Michigan public universities, and clearly highlights the need to stabilize our reserves to an acceptable level similar to our peer institutions.

And finally, ***Exhibit 4*** illustrates the results of our cost reduction and cost containment measures. Between 2003 and 2014, our operating expenses have grown by less than the rate of inflation. Between 2013 and 2016, we are on track to have operating expenses grow by an average of less than one percent per year.

These numbers underscore why Eastern made the considered and responsible decision to raise tuition as it did this year. Our plan for these funds is to build a sustainable fiscal model for the University by, among other things, stabilizing our reserves, continuing to invest in our academic facilities, and providing Michigan students with a high quality university education in high-demand fields.

Eastern and the State of Michigan have always had a strong partnership. It is a partnership that our University and its leadership highly values and looks forward to continuing.

Again, I very much appreciate the opportunity to meet with you today, and I welcome your questions.

Sincerely,

Kim Schatzel, Ph.D.  
Interim President  
Executive Vice President and Provost

# KEY POINTS REGARDING EASTERN MICHIGAN'S TUITION INCREASE

## FISCAL POSITION



\$29.7M

FINANCIAL RESERVES ARE SECOND LOWEST IN STATE AND FAR LOWER THAN PEERS: CMU (\$371.5M); GVSU (\$277.8M); WSU (\$228.6M); OU (\$222.4M)

## STATE APPROPRIATION



15%

STATE FUNDING CUT — STILL NEARLY \$7M BELOW FY09 LEVELS

## CAPITAL EXPENSES



\$300M

DEFERRED MAINTENANCE COSTS REFLECTING AGE OF 166-YEAR-OLD INSTITUTION

## TUITION HISTORY



\$48.5M

FINANCIAL AID OFFERED ROSE \$4.7M OVER LAST YEAR AND \$27M SINCE 2007-08

0-0-0

FIRST UNIVERSITY IN THE STATE IN DECADES TO FREEZE TUITION, FEES AND HOUSING RATES IN 2010-11

3<sup>rd</sup>

LOWEST TUITION COST IN THE STATE AMONG PUBLIC UNIVERSITIES

## FISCAL STEWARDSHIP



\$9M

COST SAVINGS AFTER ELIMINATION OF 167 NON-FACULTY POSITIONS

## EMPLOYMENT BENEFITS PROGRAMS / RETIREMENT PLAN



\$450,000

SAVINGS FROM CHANGES TO NON-FACULTY CONTRIBUTION

\$400,000

EXPECTED SAVINGS PER YEAR FROM NEW FACULTY HEALTH INSURANCE COVERAGE

\$25,000

EXPECTED SAVINGS PER YEAR FROM FACULTY PRESCRIPTION DRUG BENEFITS

## FISCAL STEWARDSHIP



\$5M

REDUCED ANNUAL UTILITY COSTS SINCE 2009 VIA "GREEN" IMPROVEMENTS, FAVORABLE GAS PRICING CONTRACTS

## Exhibit 1

# Tuition Trends: Compare Group

In 2005-06, universities in our peer group were virtually the same in terms of tuition rates. Over the past decade as EMU focused on tuition restraint, Eastern's low tuition rates relative to other universities became more pronounced.



Source: Institutional Date  
FTIAC Tuition Plus Mandatory Fees

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## Exhibit 2

# Tuition Cost: Michigan Publics 2015-16

With this year's increase, Eastern remains 13<sup>th</sup> out of 15 among Michigan universities in terms of tuition rates.



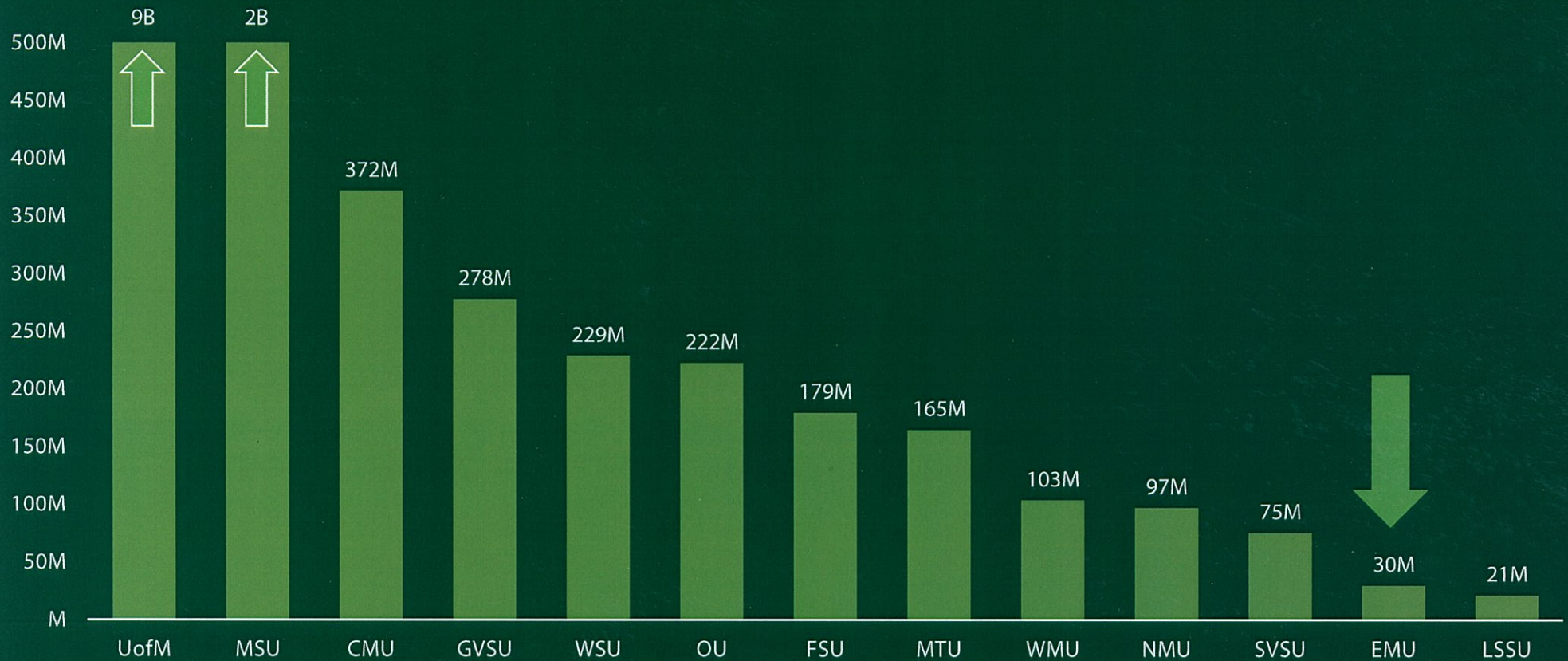
Source: Institutional Date  
FTIAC Tuition Plus Mandatory Fees

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## Exhibit 3

# Total Reserves: Michigan Publics

Eastern's reserves are far less than all but one of Michigan's universities. When considering EMU's peer group of universities, the disparity in reserves is even more striking.



Source: EMU Audited Financial Statements

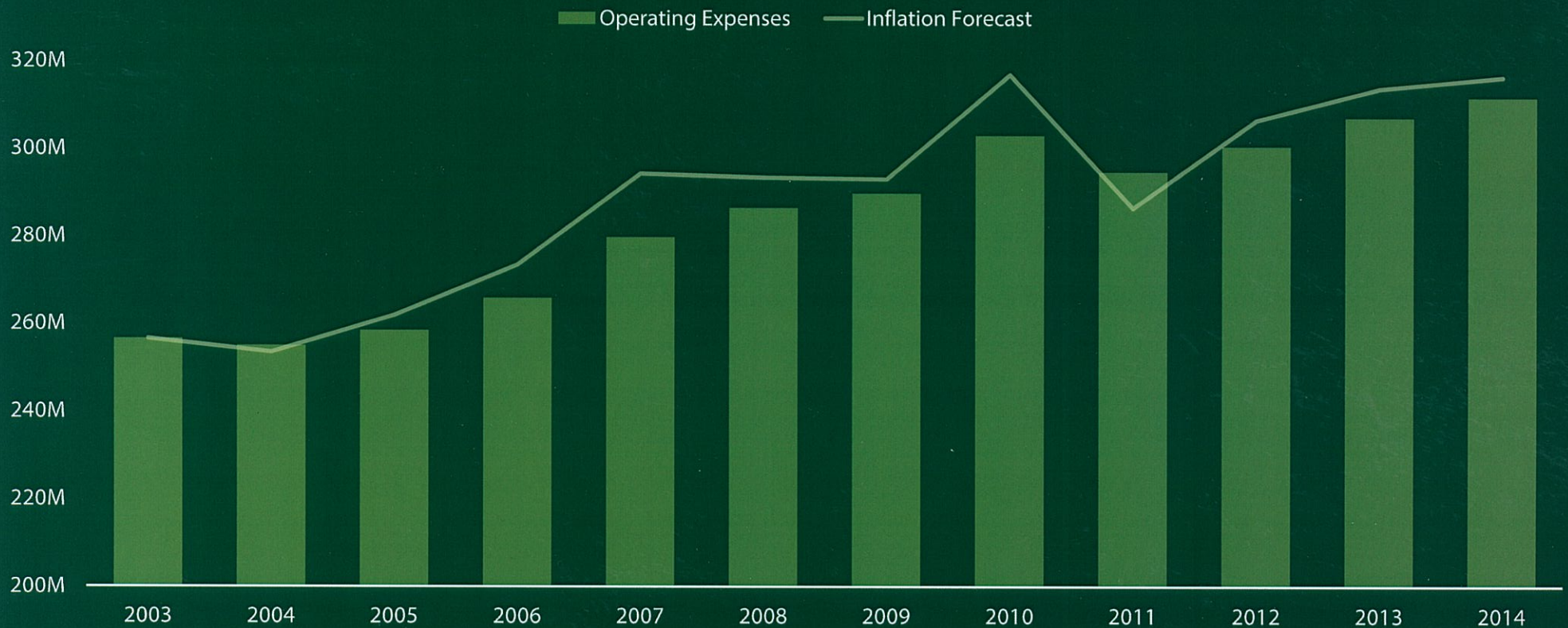
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## Exhibit 4

# Operating Expenses Relative to Inflation

EMU operating expenses have grown slower than inflation.



Source: Operating Expenses, including interest expense, from EMU's Audited Financial Statements

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