



Postsecondary Education Budget Fundamentals

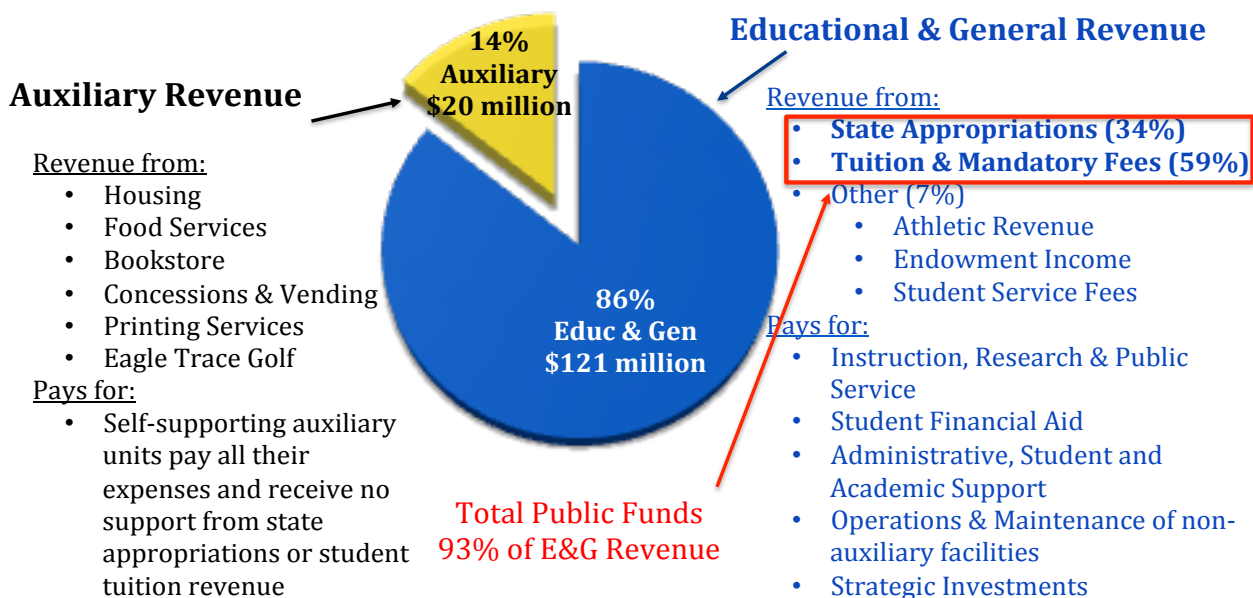
This document was developed using data from Morehead State University's 2014-15 Audited Financial Statements to illustrate the various revenue sources and primary expenditures of a public regional university in the Commonwealth.

Myth: Public universities have a variety of revenue sources that can be used to absorb reductions in state general fund appropriations.

Auxiliary Revenue at MSU is generated from Housing, Food Services, Bookstore, Concessions & Vending, Printing Services and the Eagle Trace Golf Course. Auxiliary Service Units are 100% self-supporting. The revenue that is collected by auxiliary units is used to pay for the auxiliary unit personnel, operating and capital expenditures. No tuition or state appropriation revenue is used to support auxiliary service units.

Educational & General (E&G) Revenues includes funds available to fulfill the primary mission of the university and funds all personnel, operating and capital expenditures for instructional, administrative and student support units and also funds student financial aid expenditures. The primary sources of E&G revenue are **State Appropriations** and **Gross Tuition & Fee Revenue**. Together these revenues make up 93% of the University's E&G budget. These two sources together are referred to as "**Total Public Funds**" Revenue.

Morehead State University 2014-15 Revenues (\$141 million Actual)

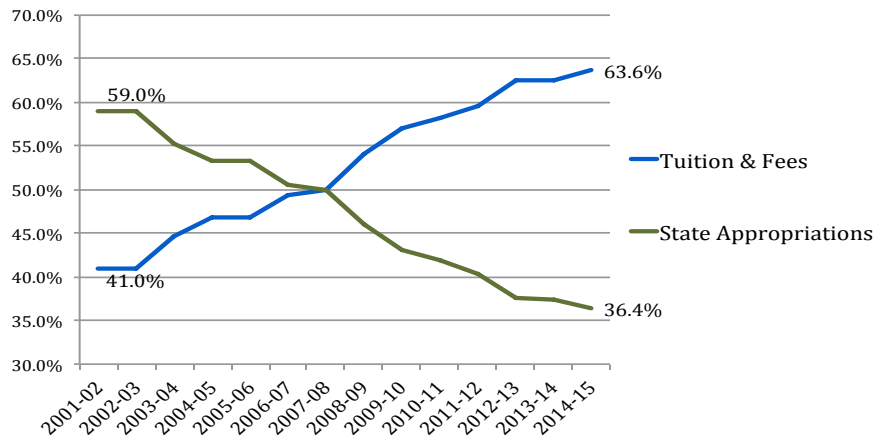




Since FY02, gross tuition revenue has replaced state appropriations as the primary source of E&G revenue due to:

- Reduction in funds appropriated by the state to support postsecondary education
- Rising tuition rates and enrollment growth

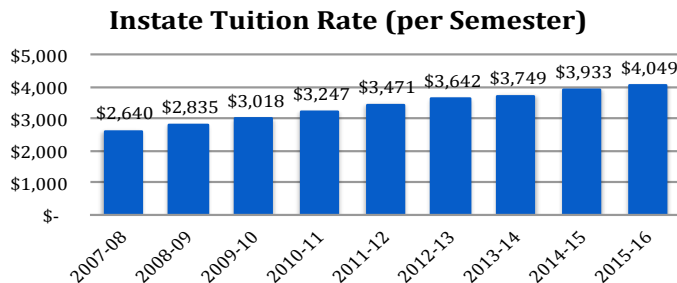
Changes in Percentage of Total Public Fund Revenue



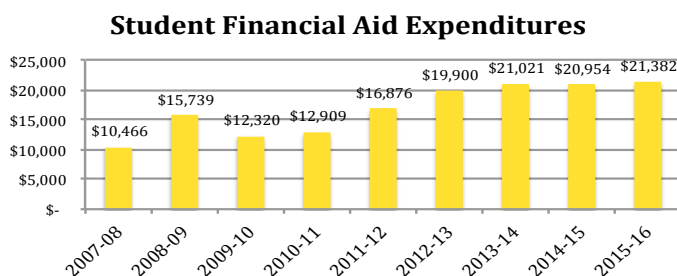
Myth: Universities have increased tuition at rates that have outpaced inflation making college unaffordable.

Gross tuition rates (sticker price) have increased at rates that exceeded inflation as show in the chart below. However, because gross tuition is discounted through institutionally funded scholarships and waivers, the **NET TUITION** paid by students has not outpaced inflationary increases. The annual average rate increase and the cumulative rate increase to student financial aid has actually **DOUBLED** in comparison to the increase rate of gross tuition.

Increases in Tuition and Institutional Student Aid FY07-FY15



Annual average increase of 5.8%
Cumulative increase of 53.4%

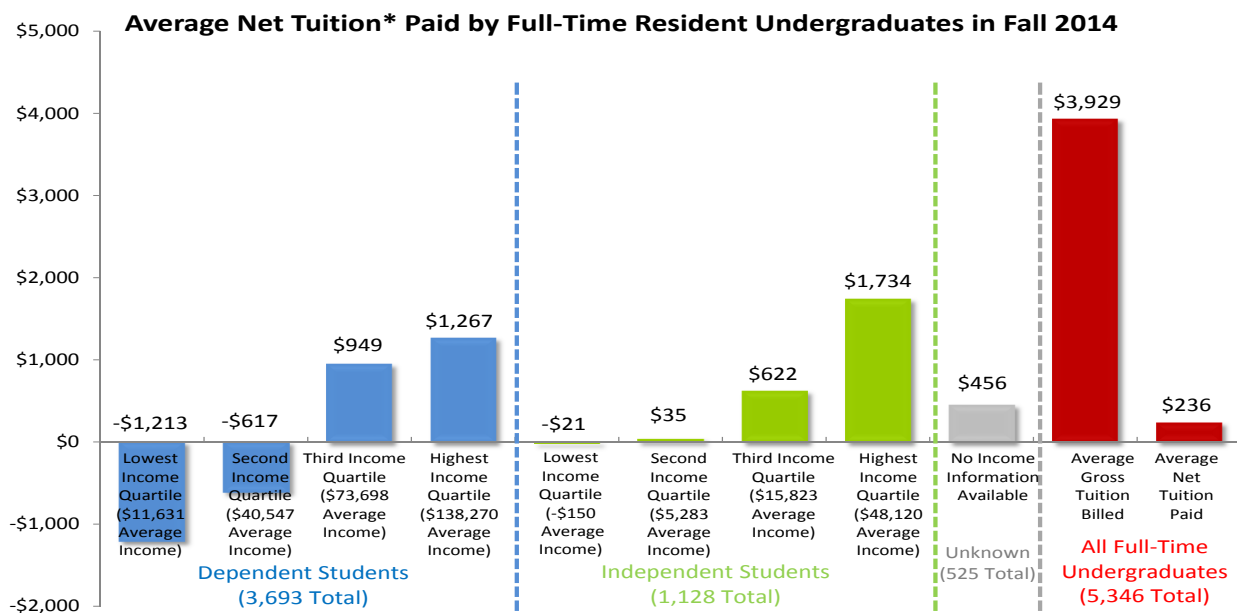


Annual average increase of 11.7%
Cumulative increase of 104.3%



On average, Kentucky students pay a fraction of the gross tuition rate (sticker price). At MSU in the Fall 2014, the full-time Kentucky undergraduate student was **billed** the sticker price of \$3,929 but actually **paid** only \$236 in tuition after applying federal, state and institutional scholarships and grants as shown in the following chart in the red bars. The net tuition calculation does not consider loans or work study wages but only funds that the student does not have to pay back or work to earn.

Gross Tuition vs. Net Tuition



*Net Tuition is calculated by subtracting all need and merit-based grants, scholarships and waivers from federal, state, institutional and other sources. Income quartiles rank students in the sector within their dependency category by family income reported on the FAFSA, and divides them into four equal-sized groups based on their income rank. Student loan or work study awards are not included in the calculation of net tuition. Gross tuition is the amount billed to a student's account based on 2014-15 tuition rates and actual student credit hours enrolled prior to application of student financial aid awards.

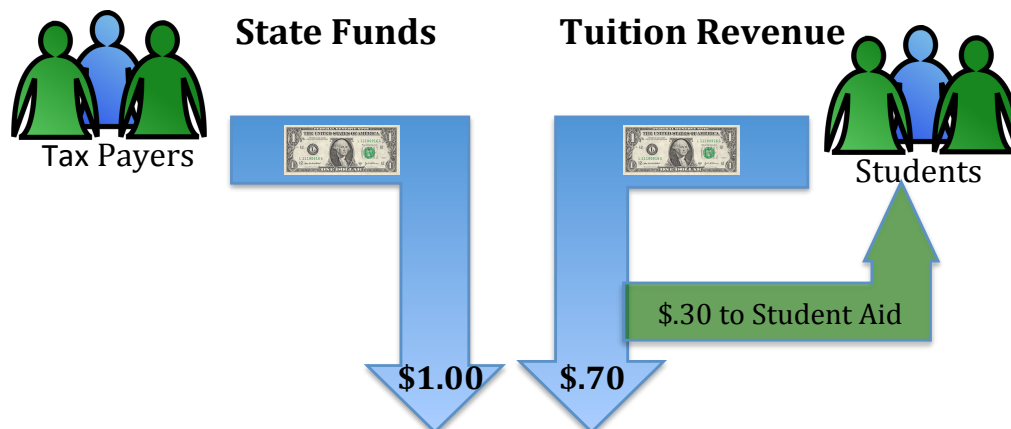
The students in the above chart are separated by “dependent” and “independent” status and within those categories, by income quartile. The chart shows that only students in the highest income quartiles (with family income between an average of \$73,698 and \$138,270 for dependent students) actually paid any tuition out of pocket. Students in the lower income quartiles received a refund from their financial aid after their tuition bill was paid. The refunds were then available to cover other expenses such as room, board, books and supplies.



Myth: A dollar appropriated by the state can be replaced by a student tuition dollar.

The following chart illustrates how a public fund dollar coming from the tax payer to the institution in the form of state appropriations provides more money to support operations than a dollar in public funds that comes from a student paying tuition.

Primary Sources of Educational & General Revenue “Total Public Funds”

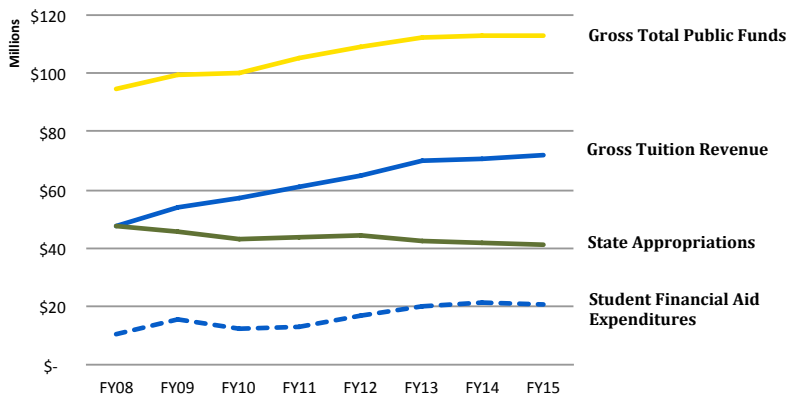


Educational & General Revenues available to cover operating expenditures for instruction, research, service, student, academic and administrative support



Myth: Universities have more funds today per student than they had in FY08

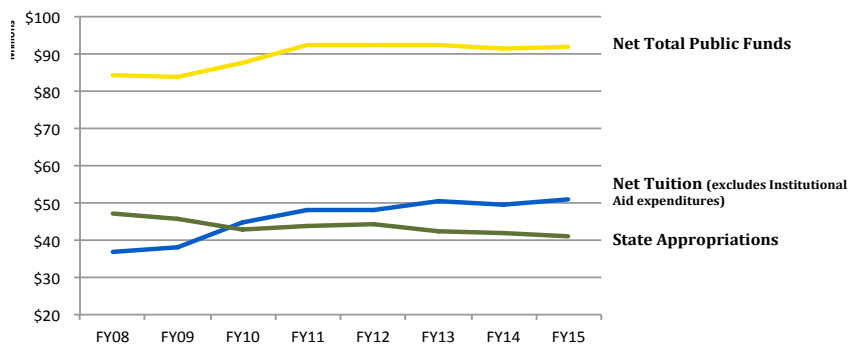
Change in Gross Total Public Fund Revenues and Student Financial Aid Expenditures FY08 - FY15 (Actual)



\$ Increase of \$977
Per Student FTE

The chart on the left shows the changes in state appropriations (green line), gross tuition revenue (blue line) and the combination of the two as total public funds (yellow line) from FY08 through FY15. It also includes the change in institutional student financial aid expenditures (dotted line) for the same period. Based on this chart it appears MSU increased the amount of Total Public Funds by \$997 per student.

Change in Net Total Public Fund Revenues FY08 - FY15 (Actual)



\$ Decrease of \$248
Per Student FTE

If you remove the student financial aid expenditures from the gross tuition revenue and calculate NET Total Public Funds (yellow line) per student FTE for the same time period, you see that there is actually a decrease of \$248 per student in FY15 compared to FY08.

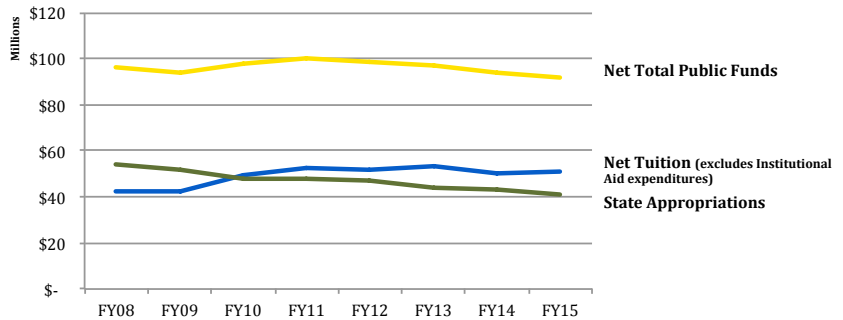


Finally, if you adjust the same data for inflation, the purchasing power of Net Total Public Funds in FY15 is \$2,060 less per student than what was available in FY08. The chart to the right shows the Net Total Public Fund Revenues adjusted for inflation using the Higher Education Price Index (HEPI).

The proposed 4.5% current year cut to postsecondary education will reduce the net total public funds available per student by an additional \$257 for a total decrease of \$2,317.

Change in Net Total Public Fund Revenues FY08 - FY15 (Actual) - Adjusted for Inflation using HEPI

The Commonfund Higher Education Price Index (HEPI) is an inflation index designed specifically to track the main cost drivers in higher education



\$ Decrease of \$2,060 per Student FTE
\$ Additional \$257 per student FTE if the Governor's budget is enacted

That decrease of \$2,317 per student in Net Total Public Funds is compounded with the rising fixed cost increases experienced over the same period. The following chart shows how the increase in gross tuition and fee revenue from FY08 - FY15 that totals \$25.5 million falls \$9.8 million short of covering the total cuts in state appropriations, the unfunded Maintenance & Operating funds for new facilities constructed on the campus and the increases in unavoidable fixed costs such as mandatory employee retirement contributions, health benefits, utilities, unfunded tuition waivers, scholarships, insurances and technology.

Financial Challenge 2007-08 Actual - 2015-16 Projected

