Minutes*

Senate Committee on Finance and Planning
Tuesday, April 23, 2013
3:00 – 4:30
238A Morrill Hall

Present: Russell Luepker (chair pro tem), Gary Cohen, Dan Feeney, Susan Hupp, Lincoln Kallsen, Kara Kersteter, Jill Merriam, Fred Morrison, Paul Olin, Jahon Rafian, Terry Roe, Michael Rollefson, Pamela Wheelock, Aks Zaheer

Absent: Will Durfee, Catherine Fitch, Talha Khan, Richard Pfutzenreuter, Gwen Rudney, Ann Sather, Arturo Schultz, S. Charles Schulz, Thomas Stinson, Michael Volna

Guests: David Fisher (incoming Committee member); Provost Karen Hanson, Vice Provost Robert McMaster; General Counsel Mark Rotenberg

Other: Suzanne Bardouche, Brad Weiner (Office of Undergraduate Education); Jon Steadland (Office of the President)

[In these minutes: (1) tuition and financial aid; (2) negotiations with the Vikings for use of TCF Bank Stadium]

1. Tuition and Financial Aid

Professor Luepker convened the meeting at 3:00, explained that Professor Durfee was out of town, and welcomed Provost Hanson and Vice Provost McMaster to discuss the "high tuition, high aid" circumstances that have evolved at the University. He noted that the Committee had provided to the two of them a number of questions related to tuition and financial aid:

1. What is the 10-year trend for sticker price tuition, for aid and for what students actually pay?

2. What has changed in concepts of thinking about tuition and aid during the past 5 years and what are the drivers for the changes?

3. What has changed about who gets the aid?

4. What income bracket or achievement category characterizes students who don't do well under the current tuition/aid strategy?

5. How are tuition sticker price, aid and debt linked?

6. How does the UMN tuition/aid strategy compare with that for MNSCU?

7. UMN is free to set a high tuition high aid strategy, which to some extent taxes upper income bracket students to subsidize lower income bracket students. Is this how the legislature sees it and is the legislator OK with this?

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* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

8. What must UMN do to better communicate its tuition and aid strategy, particularly in light of the current public attention to administrative costs?

Vice Provost McMaster began with general comments. He said that the migration to the "high tuition, high aid" model is problematic for some but it has become the norm for most major research universities in the country, for better or for worse. Most of the Big Ten schools are "high tuition" and they seek to deal with it through increasing financial aid. He turned to a set of slides to discuss the topic and also provided copies of principles to guide University financial aid programs (appended to these minutes).

There are three factors directly related—tuition, financial aid, and enrollment management—that play a role in student success, Dr. McMaster said. When one talks about tuition, one must talk about the other two as well, because all three are central to student success.

Dr. McMaster provided an excerpt from the Regents' policy *Tuition and Fees*; the guiding principles (for undergraduate education) in that policy are:

-- Shared responsibility by student, U of M, and the state
-- Support access, retention, and timely progress toward degree
-- Take into account the competitive environment, benefits to students, social needs, and level of state appropriation.

[The policy can be found at http://regents.umn.edu/sites/default/files/policies/Tuition_and_Fees.pdf]

Dr. McMaster reviewed tuition models:

Currently in place at the University:

-- banded tuition structure
-- % percent annual increases
-- surcharge for one college (CSOM)

Some other options:

-- differential lower/upper division rates
-- "guaranteed" tuition plan (no increases over 4-year period for a cohort)
-- differential tuition by major
-- differential tuition by college
-- surcharge for students with over X credits

The University has moved, by choice, to the model it has in place now. Credits taken by a student over 13 are free; the average credit load for undergraduates is now about 15 per semester. From 2002-2007 there were double-digit tuition increases; increases of that magnitude have ceased since 2008.

The University used to have differential upper and lower division tuition, Dr. McMaster recalled. Illinois has the second alternative option; the increases are for each class of entering freshmen, and then tuition levels for that class are held constant for four years. The third option, differential tuition by major, is a bad idea, Dr. McMaster opined; it has been discussed in some states, including charging higher tuition for degrees that are not in high demand in the marketplace. As for the fourth option, the

University has permitted one college, the Carlson School, to impose a surcharge that will eventually be $1000 more per student; many institutions have higher rates for business and engineering.

Dr. McMaster next noted a bar graph indicating, for new Twin Cities Minnesota resident freshmen for the period 2002-2010, the increase in the (1) cost of attendance, (2) mean grant/gift award, and (3) net price. The net price increased by an average of 3.4% per year while the cost of attendance increased an average of 5% per year. The mean grant/gift aid amounts more than doubled during the same period.

Dr. McMaster reviewed the data on cost of attendance from 2007-08 to 2012-13 for a Minnesota resident undergraduate living on the Twin Cities campus; as determined by federal rules, it was $20,250 in 2007-08 and $24,718 in 2012-13.

The University seeks to increase affordability for students in four ways: strong need-based aid programs (e.g., U of M Promise for low-income and middle-income students); financial literacy programs; controlling tuition increases; and improving graduation rates. Dr. McMaster reviewed data on financial support for Twin Cities degree-seeking undergraduates for the five years 2007-08 to 2011-12.

-- Gift aid rose from $95.3 million to $130.6 million (down from $146.4 million in 2010-11 because federal stimulus funds ran out; those funds were used to buy down tuition rates);
-- Waivers decreased from $9.0 million to $7.4 million;
-- Employment (work study, other University employment) remained fairly steady, increasing from $23.5 million to $25.6 million;
-- Loans (student and parent) increased from $142.0 million to $181.9 million.

Gift aid plus waivers, as a percentage of the total financial support, increased from 38.7% to 40.0%; that is a percentage the University would like to see increase, Dr. McMaster said. Loans as a percentage of the total financial support remained steady; 52.6% in 2007-08 and 52.6% in 2011-12—in part because the stimulus funds ran out and the state grant program ran out of money.

Provost Hanson said she wished to underscore that there was no conscious "high tuition, high aid" policy at the University (there was at some institutions); the University has continuously been seeking state support and high tuition, high aid has never been a formula the University endorsed.

In response to question #1 from the Committee, "What is the 10-year trend for sticker price tuition, for aid and for what students actually pay?" Dr. McMaster provided additional data.

Minnesota resident tuition and fees:

2004: $6,562
2008: $9,661
2012 $13,060

Minnesota non-resident tuition and fees:

2004: $18,193
2008: $20,580
2012: $18,060

The non-resident rate decreased in 2012 because the University adopted the R4000 program, which set non-resident tuition at the resident rate plus $4000. This was part of the University's effort to become a more national university and to make it more competitive. The result was a significant increase in the number of non-resident students at the University, including international students.

Dr. McMaster also provided additional financial aid data; of those degree-seeking undergraduates on the Twin Cities campus who received financial aid:

2004: $5,116 in gift aid
2012: $6,533 in gift aid

2004: $7,677 in loans
2012: $10,465 in loans

Professor Roe asked how the rate on loans is determined. By the federal government, Dr. McMaster said. Mr. Weiner reported that the rate also varies by type of aid; right now the rates are very low. Professor Roe then asked about net price: If there were no aid for students from University sources, would the price be lower? That is, to what extent would tuition be lower if no institutional funds were used to lower the net price? The graph of the net price is an average, which misses the distribution: the wealthy pay more and the poor pay less.

Dr. McMaster said that the Promise Scholarship allocates about $30 million per year across the University. If a student has a zero Expected Family Contribution (to college costs), which means from a household with a family income of $25,000 or less, he or she receives the maximum Promise award possible plus the maximum Pell plus the maximum state grant, all of which together cover tuition and fees.

Provost Hanson said that while there has been pushback on the idea of high tuition, high aid, there are perturbations in the data so one cannot say that students from wealthy families are subsidizing low-income students. There are other sources of aid and sorting tuition revenue from aid is difficult. She pointed out that there is also a national discussion about the extent to which students from wealthy families receive considerable aid (in the form of merit scholarships).

Another way to ask the question, Professor Roe said, is whether the University could lower tuition and maintain the same support to low-income students. The question, Professor Morrison added, is how much gift aid and waivers come from O&M funds. Waivers, he surmised, are probably all from O&M funds (state dollars and tuition revenue).

Vice Provost McMaster said that very little of the gift aid comes from O&M funds; most of it flows through the University of Minnesota Foundation; the Promise Scholarships come from O&M funds. Professor Morrison said that 20 years ago there were no state funds or tuition revenues used for financial aid; that changed later. To about $30 million in the Promise Scholarships, Dr. McMaster affirmed.

Professor Zaheer said that the R4000 model, adding $4000 to resident tuition, seemed to be an arbitrary number. As tuition increases, the additional cost for non-residents should be a percentage of tuition, not a fixed amount. How long with this model be in place? Is it appropriate for international students? The University owes them nothing; most institutions are trying to make money from them. Is the University shooting itself in the foot with this model? He said he supports reciprocity but it is not clear why non-resident tuition is arbitrarily restricted.

Vice Provost McMaster said he did not know the origin of the R4000 number; President Bruininks and the late Dr. Zetterberg made the decision. The model has shifted to R5000 and then to R5250 and is going to R6000 for 2013-14. Historically there was a much larger gap between resident and non-resident tuition, Professor Zaheer observed. And the University had a much smaller number of national and international students, Dr. McMaster pointed out.

Provost Hanson said that the R4000 model was clearly an enrollment-management strategy. Now that the University has in place the infrastructure to do national and international recruiting, it need not rely on low non-resident tuition. Having low non-resident tuition sends a message to Minnesota residents. No one disagrees about having more national and international students; it is a question of strategy.

When it was adopted, Professor Morrison said, the question was what market price would lead to the largest possible revenues from national and international students, which also allowed the University to recruit for increased diversity. Originally non-resident tuition was about 250% of resident tuition and the University was pricing itself out of the market, so it brought the non-resident levels down. It is now testing whether it can increase them again.

With respect to enrollment management, Dr. McMaster observed, the University is a more difficult place to attract some students to enroll, especially students from more moderate climates, but they have found that there are students now who like to come to Minnesota because they perceive it as a high quality education and a good value. Moreover, the market changes over time, Provost Hanson said.

Professor Morrison said the decision to adopt R4000 was not irrational but it needs to be reviewed each year.

Professor Olin asked if the increased number of non-resident students had led to an increase in total enrollment. In the last 5-6 years the number has not increased and the size of the freshman class has been very consistent (which has been planned because they do not believe the campus could provide a high-quality education if the number of students increased). What has happened has been a "swap" of reciprocity students for non-resident (non-reciprocity) students. Have there been complaints that state residents have been unable to get into the University, Professor Olin asked? There has been, Dr. McMaster said, but that situation is unrelated to the number of national/international students, which has not affected resident admission numbers.

Professor Luepker asked if it is the case that scholarships are in one of the cost pools. They are, Dr. McMaster said. So colleges with undergraduates pay into that cost pool, Professor Luepker concluded. The cost-pool charges to a college are based on that college’s share of the full-time undergraduates enrolled, Ms. Bardouche said. And the students in those colleges benefit from the scholarships provided by that cost pool funding, Dr. McMaster pointed out. The cost pool funding supports the need-based Promise scholarships and a limited number of merit-based scholarships for recruitment of high-ability students.

Dr. McMaster turned to question #2, "What has changed in concepts of thinking about tuition and aid during the past 5 years and what are the drivers for the changes?" Several things have changed, he said. Several have been mentioned, such revisiting R4000 and whether international students should pay more; creation of the Promise Scholarships and a significant increase in private giving to support them; attempts to differentiate between need-based aid and merit-based aid, the latter to be used to bring the best possible students to the University; it must have merit aid on the table (its peers do); and the focus on honors, which has led to the University having the most National Merit Scholars of any school in the Big Ten except for Northwestern.

Provost Hanson said she wished to underscore the fact that this is a common pattern (increasing financial aid for students) and the University is doing well in comparison with its peers.

Vice Provost McMaster said that the University has been focusing on a third type of financial aid in the last few years: aid for middle-income families, those with household incomes in the $60,000 to $110,000 range. Mr. Kallsen observed, in relation to this point, that the University has the lowest net price of any institution in the state, public or private, for families with an income of less than $75,000.

On question #3, "What has changed about who gets the aid?" Dr. McMaster said he assumed it referred to family income distribution. Over the ten years 2001 – 2011, the was a 6% increase in enrollment of students with a family income of less than $30,000, a 7% increase in the number of students from families with incomes of $110,000 or greater, and a 1% decrease in the number of students from families with incomes of $30,000 - $110,000. He noted, however, that the University uses need-blind admissions, and those making admissions decisions do not see family income.

Mr. Rafian commented that the high tuition model has worked well for him but that he has not seen any benefit—yet—from the surcharge on tuition for Carlson School students. Provost Hanson commented that all of the money from the surcharge is going into things that benefit students, such as more sections and more student services. Mr. Rafian asked if surcharges were also planned for other college, such as Science and Engineering. Why the Carlson School?

Professor Zaheer (Carlson School faculty member) responded to the last question. He said the Carlson School provides a very high level of student services. He noted that 90% of its graduates are employed within three months of graduation at salaries that average $50,000 per year. The surcharge funds are used to support the interface between companies and students as well as access to technology and upgraded labs. Provost Hanson observed that student services are crucial in Carlson because they are relevant for rankings. The funds are also used to provide more faculty members who teach undergraduates, Dr. McMaster said, which is related to the quality of instruction.

Professor Cohen surmised that the average salaries of Carlson School faculty members are higher than the average salaries of faculty members in other colleges that teach large numbers of undergraduates. They are, Mr. Kallsen confirmed. The surcharge, however, has not gone into faculty salaries, Provost Hanson pointed out.

Professor Luepker said that many forces affect tuition; with the promise to not increase resident undergraduate tuition for two years if the legislature provides offsetting funds, what will be the impact on the tuition-and-fees dynamic? Provost Hanson said the budget process assumes there would have been a tuition increase, so with the assumption that the state will be a partner in holding tuition steady, they have proceeded on the assumption that the revenue will be available for academic priorities.

In the budget model, tuition revenues flow to the college, Professor Luepker observed. If there is no increase in tuition revenue but increased state funding, how will they handle the additional state dollars? Provost Hanson said the formula for allocating tuition revenue will remain the same; the administration has always allocated both tuition and state dollars to the college, and now the state funds will increase. In addition, Dr. McMaster said, the state grant program may increase significantly, and those funds go directly to students in order to help offset tuition costs.

Professor Luepker thanked Provost Hanson and Vice Provost McMaster for joining the meeting and making the report.

2. Negotiations with the Vikings for Use of TCF Bank Stadium

Professor Luepker welcomed General Counsel Mark Rotenberg and Vice President Wheelock to discuss the negotiations taking place with the Minnesota Vikings about use of the TCF Bank Stadium while a new Vikings stadium is being constructed. Because the negotiations are continuing, Professor Luepker accepted a motion to close the meeting for the discussion; the motion was adopted unanimously.

Committee members discussed with Mr. Rotenberg and Ms. Wheelock a number of facets of the negotiations, including the financial elements and the potential impact of Vikings games on the campus.

Professor Luepker thanked Mr. Rotenberg and Ms. Wheelock for the discussion and adjourned the meeting at 4:35.

-- Gary Engstrand

University of Minnesota

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Financial Aid for Undergraduate Students at the University of Minnesota
March 28, 2012

The U of M is a place where people search for new knowledge, which creates businesses, enriches communities, and changes lives. Two-thirds of U students will stay in Minnesota when they graduate. They will become Minnesota's workforce for new and growing industries, its teachers, healers, artists, entrepreneurs, and engineers. And they will make Minnesota a vibrant place to live.

The University's tuition and financial aid strategies are closely connected, and are designed to support the University's goals for undergraduate student success within the context of a major, urban, public research university. The University's goals for undergraduate education are to:

- Attract the best undergraduate students.
- Retain and support these students throughout their undergraduate career.
- Provide these students with a world-class education.
- Graduate these students in a timely manner.

Principles to Guide the Financial Aid Programs of the University:

1. The University will fund and administer a comprehensive financial aid program, including merit-based aid and need-based aid programs.

2. The University's financial aid strategies will be linked to University and state goals and priorities. These strategies will be evaluated regularly, and adjusted as necessary, to improve effectiveness of spending as it relates to institutional and state goals.

3. In support of retention and timely graduation, multi-year financial aid packages (four years for freshmen, two years for transfer students) will be offered whenever possible. Financial aid will be targeted to degree-seeking students, and continuation of aid for a student will depend upon the student making satisfactory and timely academic progress toward a degree.

4. Financial aid packages will be tailored to each student's circumstances and may include a variety of forms of need-based and/or merit-based aid from numerous funding sources including, but not limited to, University funds, federal and state aid programs, external scholarships and donor-directed funds.

5. The University of Minnesota financial aid package for an individual student will not exceed the federal cost of attendance for any given year.

6. The University is committed to providing constituents with accurate and clear information about college costs, financial aid, and debt burdens. The University will provide responsive service to its students and their families.

7. As a public institution, the University supports access for qualified students, and its review of applicants for undergraduate admissions is need-blind. A student's ability to pay is not a factor in determining admissibility.

<u>Principles Specific to Merit-Based Aid:</u>

8. A major focus of merit-based aid will be to attract high-achieving students to the University and support their retention and timely graduation.

9. As a public land-grant institution, the University will award the majority of freshman academic merit-based scholarships to Minnesota residents, but will also use merit aid to attract and retain excellent non-resident students.

10. Scholarship awards will be leveraged to enhance the diversity of the freshman class, broadly defined to include geographic, ethnic, socioeconomic, and special talents.

11. The University may award merit-based financial aid to support its signature strengths and increase enrollments in priority areas.

<u>Principles Specific to Need-Based Aid:</u>

12. Financial aid strategies and tuition strategies will be closely aligned.

13. Institutional need-based financial aid will be a critical component in maintaining access for many promising students who otherwise would not be able to attend the University.

14. As a public land-grant institution, the University will focus its need-based aid on Minnesota residents.

15. The largest amounts of University of Minnesota need-based aid will be provided to the students with the greatest need as determined by the FAFSA, and based on the Expected Family Contribution.

16. Need-based financial aid will be provided to families with incomes up to the “middle income” level. This level will be reviewed and defined annually.