

MINUTES OF THE SPECIAL MEETING
OF THE
MICHIGAN STATE UNIVERSITY
BOARD OF TRUSTEES

July 9, 2001

The Trustee Finance Committee of the Whole meeting was held in the Board Room of the Administration Building beginning at 10:36 a.m. on Monday, July 9, 2001. On a motion by Mr. Ferguson, supported by Mr. Romney, the Board voted to adjourn the Trustee Finance Committee of the Whole and move immediately into the special action meeting.

President McPherson called the special meeting of the Board of Trustees to order at 10:52 a.m. in the Board Room.

Trustees present: Dolores M. Cook, Joel I. Ferguson, Dorothy V. Gonzales, Colleen M. McNamara, Donald W. Nugent, and David L. Porteous. Trustees present by phone: G. Scott Romney and Robert E. Weiss.

University officers present: President McPherson, Provost Simon, Vice President Poston, Secretary Pogel, Vice President and General Counsel Noto, Vice Presidents Denbow, Greenleaf, Huggett, June, Webster, and Senior Advisor and Director Granberry Russell. Student Liaison present: Sam Howerton.

All actions taken were by unanimous vote of the Trustees present, unless otherwise noted.

1. On a motion by Ms. McNamara, supported by Mr. Nugent, **THE BOARD VOTED to approve** the proposed agenda.

2. Public Participation

There were no requests to address the Board of Trustees on issues germane to the agenda or other issues.

3. Tuition Guarantee

It was recommended that the MSU Tuition Guarantee be provided to first-time Michigan resident freshmen entering Fall 2001 with the following stipulation: because the pending State appropriation does not meet traditional conditions to the Guarantee, the Guarantee will be suspended for the 2001-02 period. Tuition rate increases for these students in each of the subsequent three years (academic years 2002-03, 2003-04, and 2004-05) will be held to the approximate rate of inflation plus 2.0 percentage points, subject to the conditions noted in the succeeding paragraphs. MSU has achieved a reputation for high-quality, internationally acclaimed academic programs. The

preservation of these programs, including the need to provide competitive faculty salaries, requires the additional two percentage points.

As in the past, this action is contingent upon recurring State appropriation increases, for each of the three academic years specified above, for Michigan State University's general fund that are at least equal to the rate of inflation and that make substantial progress toward closing the per-student funding gap among Research I universities in the State. Recurring appropriation support refers to fund sources that are expected to continue over time, typically generating increasing revenues, and that are derived from taxes established by State law. Should these conditions not be met for any of the three academic years specified above, the Guarantee will be suspended for the year in question. The suspension of the Guarantee does not extend the Guarantee beyond the three years specified above.

As in the past, MSU may restructure tuition and fee charges utilizing alternative or block structures to address concerns such as course load, and part-time and off-campus student issues. A consequence of restructuring tuition and fee rates is that the new structure may depart from the technical provisions of the Guarantee. The newly structured rates will serve as the basis of measuring subsequent tuition and fee increases. It is important to note, however, that there are no current plans to restructure tuition and fees. Tuition and fees for special programs will continue to be considered separately from the Guarantee.

Discussion Regarding the Tuition Guarantee

President McPherson noted that this was an extremely difficult budget to put together. He said that the University had been able to contain the cost of tuition at an average of 2.8% over six years, and that students have benefited greatly from this. Mr. McPherson emphasized that reductions in spending at approximately \$5.5 million were necessary to offset rising health care costs. It is estimated that this year's State appropriation will increase by only 1.5%.

Maintaining the quality of this institution, he added, has been an important concern. There is no point in spending little money and getting no quality, he said. The quality of the educational experience at MSU has been steadily increasing, and the University is deeply committed to that. Faculty salary increases have been at about 5% in recent years, and that contributes considerably to quality. Over the next decade, forty percent of MSU's faculty will be retiring, and the University is recruiting outstanding new faculty.

The State has projected inflation at a rate of 3.6%, but the University's appropriation will only increase 1.5%. He said that MSU needs resources to fund faculty salary increases, rising health care costs, and rising energy costs. For those reasons, President McPherson said, a tuition increase of 8.9% is necessary. He noted again that there will be a \$5.5 million reduction in the budget.

If the Legislature is able to appropriate an increase of 3% to the University, President McPherson emphasized, then students would receive a tuition refund of 2.9%, reducing the overall tuition increase to 6%. Based on a 15-credit courseload, a student would receive a refund of \$75.00 in the Fall semester. If the Tuition Tax Credit were repealed, the Legislature would be able to increase this year's appropriation by a total of 3%, because no student in Michigan is able to take advantage of the credit.

The Tuition Guarantee will be suspended but not terminated, he stressed. He said that because the State is not appropriating increases at the level of inflation, the terms of the Guarantee are not being met. The concept of the Guarantee has been very good for the State and students, and reflects MSU's deep commitment to cost containment. Freshmen entering this Fall will receive the Guarantee in its suspended and revised form. The Guarantee for entering Freshmen states that if the State appropriates funds at the level of inflation and makes significant progress in closing the per-student funding gap, then tuition increases will not go above inflation plus 2%.

Trustee Ferguson proposed an amendment to the Tuition Guarantee stating that if economic conditions are right, the Guarantee will be extended. He said that the administration-proposed Guarantee puts the University in a bind by writing a document a year in advance, without knowing how conditions will be later. He asked that the conditions of the Guarantee be stricken, and that it simply state that the Guarantee will be reinstated when the financial environment is more favorable.

Trustee Porteous said that MSU has been a State and national leader in controlling tuition increases, and the University has received very positive coverage based on that. He noted that as more stipulations are added to the Guarantee it becomes difficult to understand the nuances. Mr. Porteous said, however, that he does support the Guarantee in the form proposed by the administration, but thinks that it will have to be studied more carefully in the coming year.

Mr. Ferguson said that in some ways, Mr. Porteous actually agrees with the amendment. Trustee Ferguson said that both he and Mr. Porteous are in favor of the Tuition Guarantee and feel that its stipulations can limit it. But rather than amend it further in the future, Mr. Ferguson stressed, it should be more flexible so that it can be applied to any economic situation.

Trustee Nugent said that the Guarantee needs stipulations for it to be a real guarantee. He added the terms of this revision may be different from past Guarantees, but for the past six years, he said, the Guarantee has been a four-year pledge to incoming students. Mr. Nugent said that it has worked in the past, it demonstrates that MSU is committed to keeping tuition low, and it shows the Legislature that MSU is fiscally responsible.

Trustee McNamara asked for clarification on the revised Guarantee and the amendment, assuming that incoming Freshman would pay an increase of 8.9% in tuition. Over the next three years, they would pay, if the terms of

the Guarantee are met, the rate of inflation plus 2%. President McPherson agreed with that description. Ms. McNamara asked Mr. Ferguson if he wishes to cancel the Guarantee for incoming Freshmen. He responded that in principle he wants a guarantee, but that the conditions for each guarantee should be written as the situation requires. Trustee McNamara said that the Guarantee has always been updated as economic conditions change, and noted that the current form is different from the original Guarantee.

Trustee Romney said that the Guarantee's 2% increase in tuition is based on the rate of inflation for this year, which means that next year there will be no actual increase in revenues because we will simply be catching up with the previous year. He added that since the University is making spending cuts at 1.5%, the guaranteed 2% increase over inflation handcuffs the University. President McPherson said that this year the University is bringing itself up to the base inflation level by way of tuition increases. Mr. Romney said that an increased appropriation next year does not capture what the University lost this year. President McPherson said that the combination of tuition and appropriations will be adjusted to an inflation level. Next year, he added, tuition and appropriations will be increased based on this year's inflation adjustments.

Mr. Romney said that it is important to extend a commitment to incoming Freshmen, and it also shows the Legislature that MSU continues to contain costs as it has done in the past. He added that this shows people within MSU that we are controlling spending by limiting tuition increases in the future. Mr. Romney said that he would support the revised Tuition Guarantee on the condition that the tuition increase remains at 8.9%.

Trustee Weiss said that he supports Trustee Ferguson's amendment. Mr. Weiss asked if 6% of the 8.9% increase is meant to make up for the rate of inflation. President McPherson responded yes. Mr. Weiss said that the 6% increase will follow students throughout their careers, and won't be lowered if the Legislature appropriates at the rate of inflation or above. He added that setting tuition by adding 2% to the rate of inflation violates the concept of the original Guarantee. He said that the administration-proposed revision provides for a tuition floor rather than a ceiling under the original Guarantee. Mr. Weiss applauded the administration and said that the original Guarantee was far ahead of other institutions in tuition containment, but he added that the University could now be on a path toward large future increases. Mr. Weiss said that the middle class bears most of this tuition increase because the wealthy can afford it and economically-depressed people receive aid.

Mr. Weiss said that the University has made great strides in faculty salaries, and there is more to do. But he added that MSU has been able to maintain costs while increasing quality, and it has been done the right way.

Trustee Weiss said that it is irresponsible to set the Tuition Guarantee before knowing inflation and appropriation numbers from the State, and that is the reason he supports Trustee Ferguson's amendment.

Trustee Romney noted that he feels it would be irresponsible for the University to not set a specific guarantee, because a flexible guarantee leaves room for greater increases.

Trustee Cook asked President McPherson to clarify the effects of the Tuition Guarantee on sophomores, juniors and seniors. He responded that freshmen who entered in Fall 1999 and Fall 2000 have the Guarantee that states that if the Legislature appropriates inflation-adjusted increases and makes substantial progress toward closing the gap, the University will set tuition at a rate which is no greater than the rate of inflation. The revised Tuition Guarantee that is on the table only affects freshmen entering Fall 2001.

Trustee Weiss asked what would happen to a student who drops out of the University and returns later. President McPherson responded that each Guarantee is approved for four consecutive academic years. Provost Simon added that students who return to the University would be subject to the Guarantee under which they originally entered the University.

Trustee Porteous said that this discussion points out how confusing the Guarantee can become as it changes. It becomes more and more complicated to understand. He said that it is incumbent upon the Board to try to maintain the basic concept of the Guarantee and to keep it as simple as possible.

On a motion by Mr. Ferguson, supported by Mr. Weiss, **THE BOARD VOTED to reject** the amendment proposed by Trustee Ferguson. A Roll Call vote was conducted by Secretary Pogel. Trustees Ferguson and Weiss voted Yes. Trustees Cook, Gonzales, McNamara, Nugent, Porteous, and Romney voted No.

On a motion by Mr. Nugent, supported by Ms. Cook, **THE BOARD VOTED to approve** the Tuition Guarantee in its recommended form. A Roll Call vote was conducted by Secretary Pogel. Trustee Weiss voted No.

4. 2001-02 Budget Development Guidelines

It was recommended that the Board adopt the Guidelines for the development of the 2001-2002 budgets, which included the 2001-2002 tuition and fee rates.

Discussion Regarding the Budget Development Guidelines

Trustee Porteous said that he appreciates the work of the administration and the Board as national and international leaders in restraining the rapidly increasing cost of tuition. He emphasized that Michigan State was one of the first universities in the country to tackle the issue. The University has worked tirelessly to increase productivity, to manage costs, and to stretch revenues as far as possible. With that in mind, however, Mr. Porteous said he cannot support the Guidelines which include an 8.9% undergraduate tuition increase for the following reasons: 1) Undergraduate tuition will increase by 8.9% while graduate tuition increases by only 3%. He said there should be no

differentiation—the increase should be uniform between the graduates and the undergraduates and 2) In the hopes that the Legislature can do more in the future for the University, the \$10.4 million Technology, Teaching and Learning fund should be used to offset a tuition increase. Mr. Porteous said that he would be voting No on the Budget Guidelines.

Trustee Nugent asked David Byelich about a uniform tuition increase for both undergraduate and graduate students. Mr. Byelich said that in order to balance the budget, an overall increase of 8.3% would be required. President McPherson added that if graduate tuition was raised by more than 3%, some of that money would be set aside for scholarships. Mr. Ferguson said there is a symbolic importance to having all students pay an equal increase. If all students, including graduate students, pay an 8.9% increase, then some of that money could be used for scholarships.

Provost Simon said that an 8.3% increase does not allow for any additional scholarship money. She said that regarding graduate students, tuition increases mostly affect liberal arts students, masters students, and students who are not funded through grant money. In addition, MSU's tuition for vet school is already first or second in the country, and tuition for out-of-state medical students is higher than that of the University of Michigan.

Trustee Romney said that the administration has done an excellent job at containing costs and having low increases in tuition. There is a responsibility, he said, to provide an economical level of tuition and access. He added that reducing MSU's budget by 1.5% is a good concept, and that it is important to provide faculty with a 5% salary increase. He said that in order to maintain the quality of the University, a tuition increase of 8.9% is necessary. The reason for this increase, he emphasized, is because the State has not provided a greater appropriation.

On a motion by Mr. Nugent, supported by Ms. Cook, **THE BOARD VOTED to approve** the 2001-02 Budget Development Guidelines. A Roll Call vote was conducted by Secretary Pogel. Trustees Porteous and Weiss voted No.

5. An Executive Session was not requested.
6. On a motion by Mr. Nugent, supported by Ms. McNamara, the Board voted to adjourn at 11:42 a.m.

Respectfully submitted,

Nancy H. Pogel, Ph.D.
Secretary of the Board of Trustees