

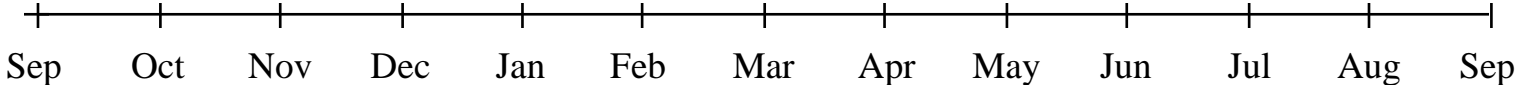
**A Status Report on the FY88-89 Budget  
for the UM-AA Campus**

**A Presentation to the UM Board of Regents**

**May 20, 1988**

**A Few Reminders  
about  
the Budget Process**

# Budget Preparation Timeline



## UM Process



State  
Budget  
Request

Preliminary  
Planning  
Sessions

Budget  
Discussions  
with Units  
BPC/AAAC

CBA  
Actions

Budget  
Recommendation  
(Tuition, GF, etc.)

Budget  
Adopted

## State Process



Development  
of Administration  
Budget Strategy

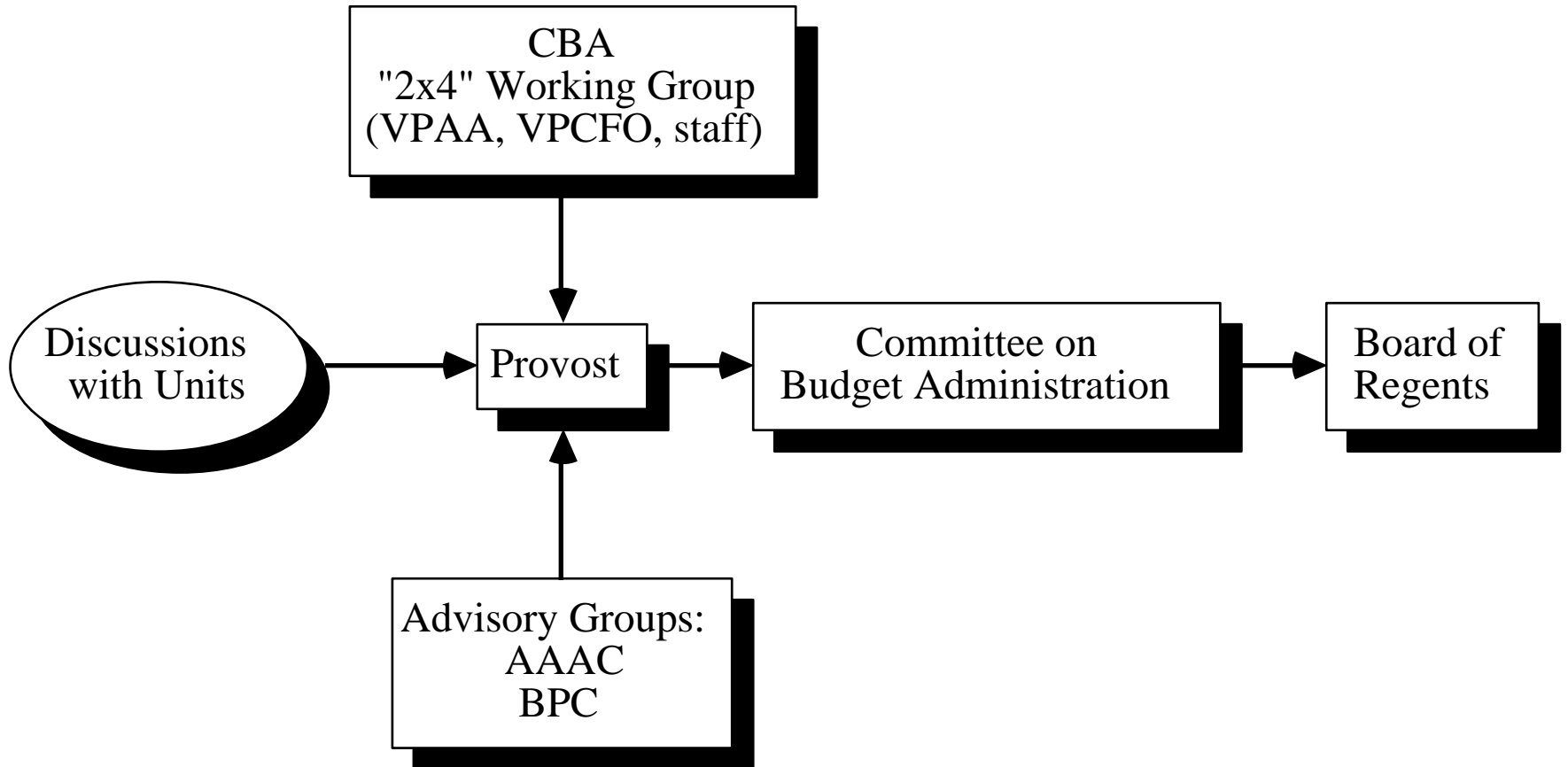
State of  
the State  
Address

Governor's  
Budget  
Recommendation

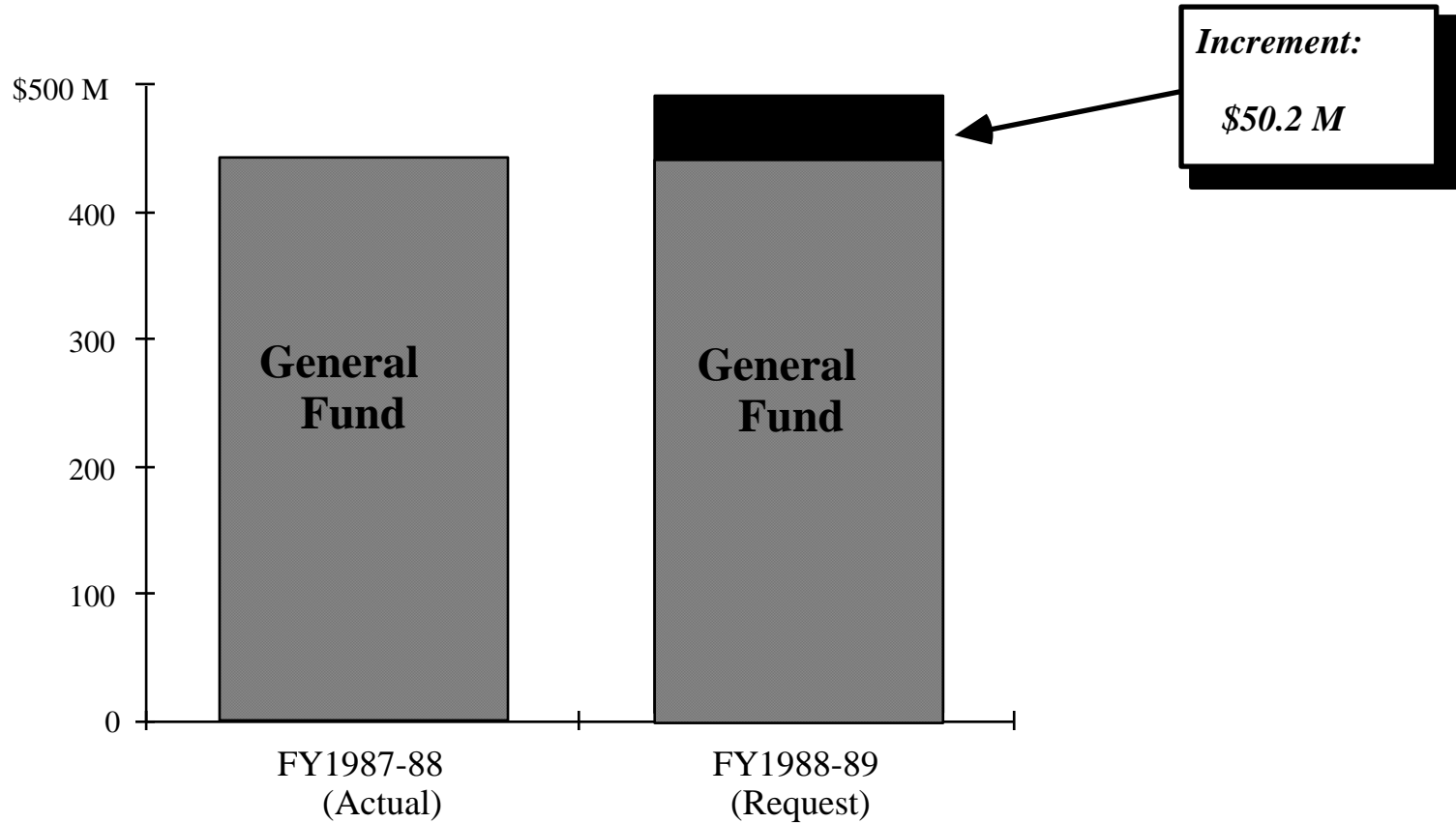
Hearings of  
Legislative  
Higher Ed  
Appropriation  
Committees

Legislative  
Action  
  
Governor's  
Signature

# The Budget Preparation Process



# Incremental Budgeting



## FY88-89 State Budget Request

<u>Item</u>	<u>Detail</u>	<u>Total</u>
<b>Fixed Costs</b>		<b>\$9,400,000</b>
<b>Staff Benefits</b>	<b>\$2,800,000</b>	
<b>Supplies</b>	<b>3,400,000</b>	
<b>Insurance</b>	<b>300,000</b>	
<b>Utilities</b>	<b>0</b>	
<b>New Space</b>	<b>2,900,000</b>	
<b>Compensation Program</b>		<b>13,300,000</b>
<b>Minority Recruitment &amp; Retention</b>		<b>2,000,000</b>
<b>Laboratory Equipment</b>		<b>4,000,000</b>
<b>Undergraduate Student Support</b>		<b>3,000,000</b>
<b>Graduate Student Support</b>		<b>3,000,000</b>
<b>Faculty Salary Restoration</b>		<b>2,500,000</b>
<b>Program Initiatives</b>		<b>5,000,000</b>
<b>Undergraduate Education</b>	<b>3,000,000</b>	
<b>Sciences</b>	<b>2,000,000</b>	
<b>University Libraries</b>		<b>2,000,000</b>
<b>Information Technology</b>		<b>2,000,000</b>
<b>Deferred Maintenance Fund</b>		<b>4,000,000</b>
<b>Total</b>		<b>\$50,200,000</b>

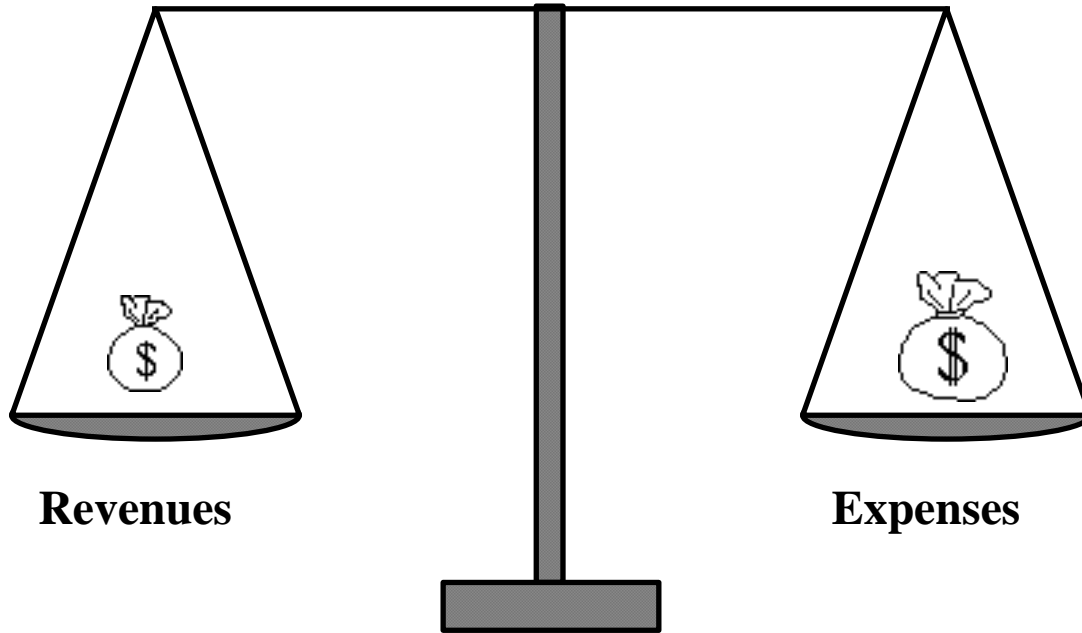
# Requested Increase in General Fund Budget

<b>Minimum increase necessary to meet commitments (as seen last fall...)</b>	<b>\$36.0 M</b>
<b>Step toward closing funding gap (estimated at \$50 - \$60 M/y)</b>	<b>\$14.2 M</b>
<b>Total Request</b>	<b>\$50.2 M</b>

**(11% increase on FY87-88 General Fund Budget of \$444 M)**

# Balancing the General Fund Budget...

- Appropriation
- Tuition
- Indirect Cost
- Interest



- Ongoing Commitments
- Critical Needs
- Closing Funding Gap



# General Fund Revenues

**State  
Appropriation**

**Tuition  
and Fees**

**Indirect Cost  
Recovery**

**Investment  
Income**



# The Current State Appropriation Picture

	<u>On Reduced Base</u>	<u>On Original Base</u>
<b>Governor's Recommendation: (including Research Excell. Fund)</b>	<b>1.5%</b>	<b>0.7%</b>
<b>Senate Higher Ed Appro Comm:</b>	<b>2.1%</b>	<b>1.3%</b>
<b>House Higher Ed Appro Comm:</b>	<b>?</b>	<b>?</b>

# The Current State Appropriation Picture

	<u>State FY89</u>	<u>UM FY88-89</u>
<b>Governor's Recommendation:</b>	<b>\$1.8 M *</b>	<b>\$3.8 M **</b>
<b>Senate Higher Ed Appro Comm:</b>	<b>\$3.2 M *</b>	<b>\$4.8 M **</b>
<b>House Higher Ed Appro Comm:</b>	<b>???</b>	<b>???</b>

## Notes:

\* Effective increase in UM FY87-88 General Fund Budget  
(i.e., net 0.75% Executive Order cut)

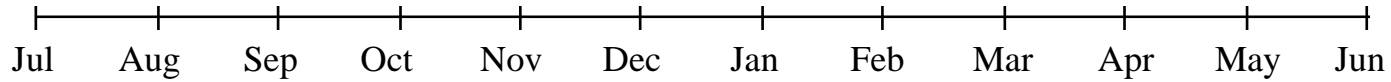
\*\* Takes into account difference in UM and State fiscal years  
(i.e., includes \$3.0 M from last quarter of State FY88)

## Caveats:

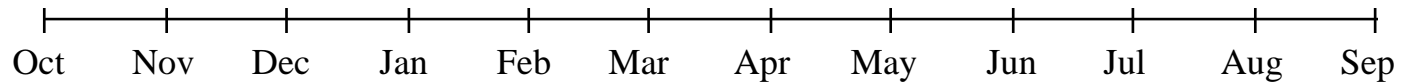
State may not have revenue to sustain even this appropriation

# A Reminder

## UM Fiscal Year (e.g., FY88-89)



## State Fiscal Year (e.g., FY89)



# Other General Fund Revenue

## UM FY88-89 Increase

### Indirect Cost Recovery:

Growth in sponsored research  
Increase in ICR rate

\$5.9 M

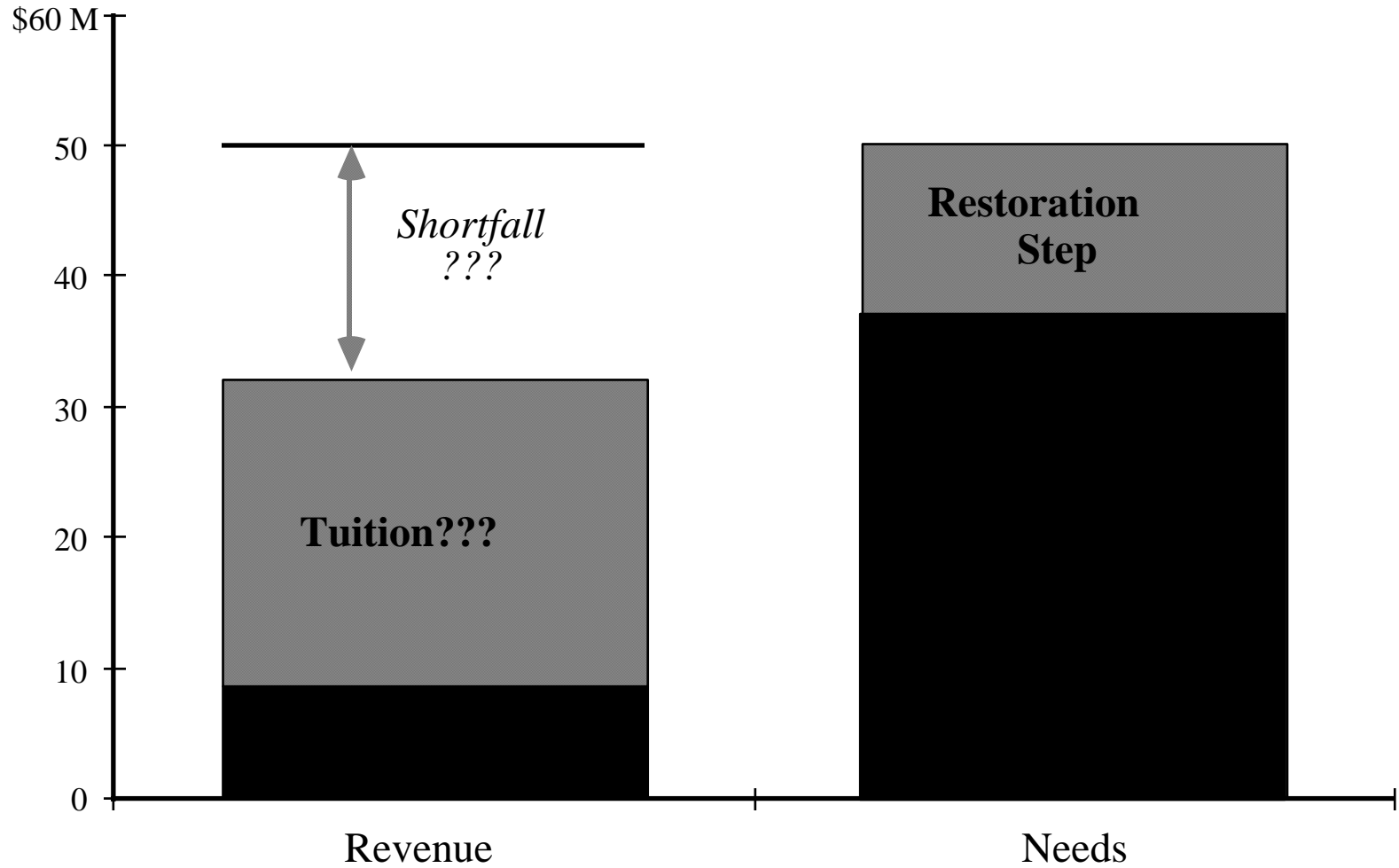
Interest:

\$0.7 M

Tuition and Fees:

?

# The Bottom Line...



# So what can we do about it?

## Cost Reduction Measures:

- Reduce salary program
- Cancel or defer all but absolutely essential expenditures
- Launch administrative efficiency efforts

## Internal Reallocation:

- University Initiative Fund (1% "off the top" = \$5.1 M)
- Internal reallocation at unit level (1% or greater)

## Revenue Measures:

- Tuition and fees
- Transfers from one-time funds (ICR, UIPDI)

# Some Useful Calibration Measures

## UM FY88-89 Increase

### Revenue:

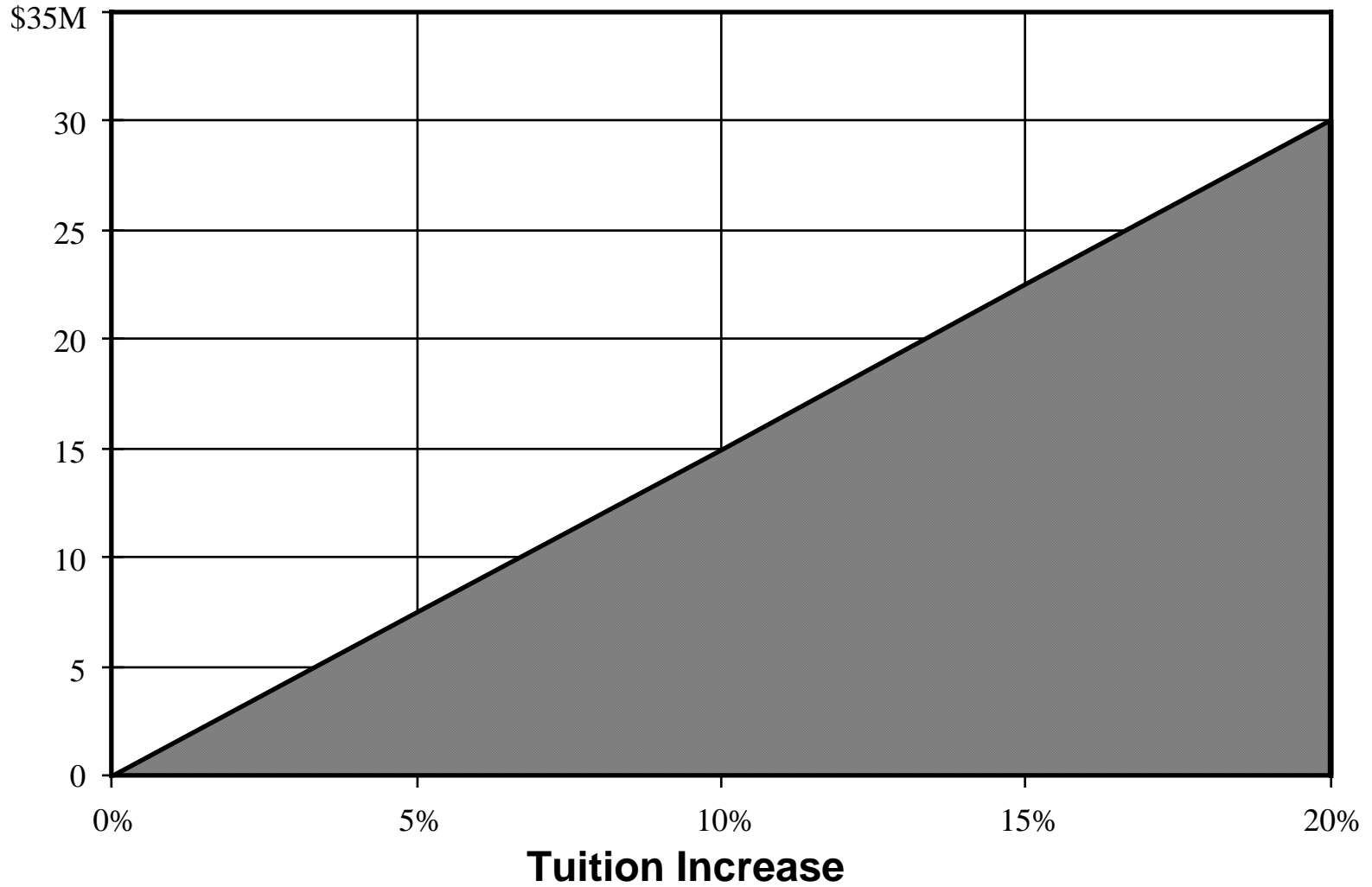
- 1% of State funding: \$1,645,000
- 1% of tuition: \$1,767,000
- 1% of student aid: (\$262,000)
- 1% of tuition (net): \$1,505,000

### Expenditure:

- 1% salary program (w SB) \$1,946,000
- 1% nonsalary \$599,000
- 1% across the board \$2,545,000



# Tuition Revenue



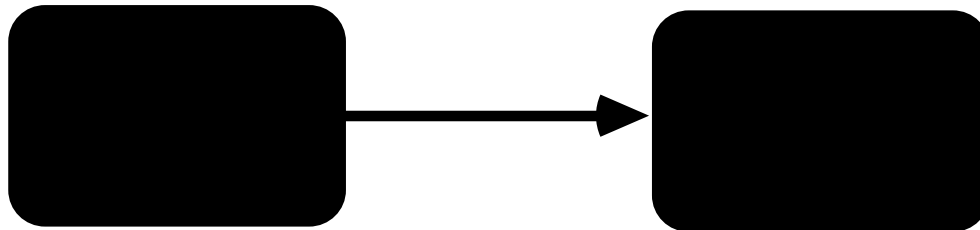
# **State Appropriations for Higher Education in Michigan**

**A Brief History**

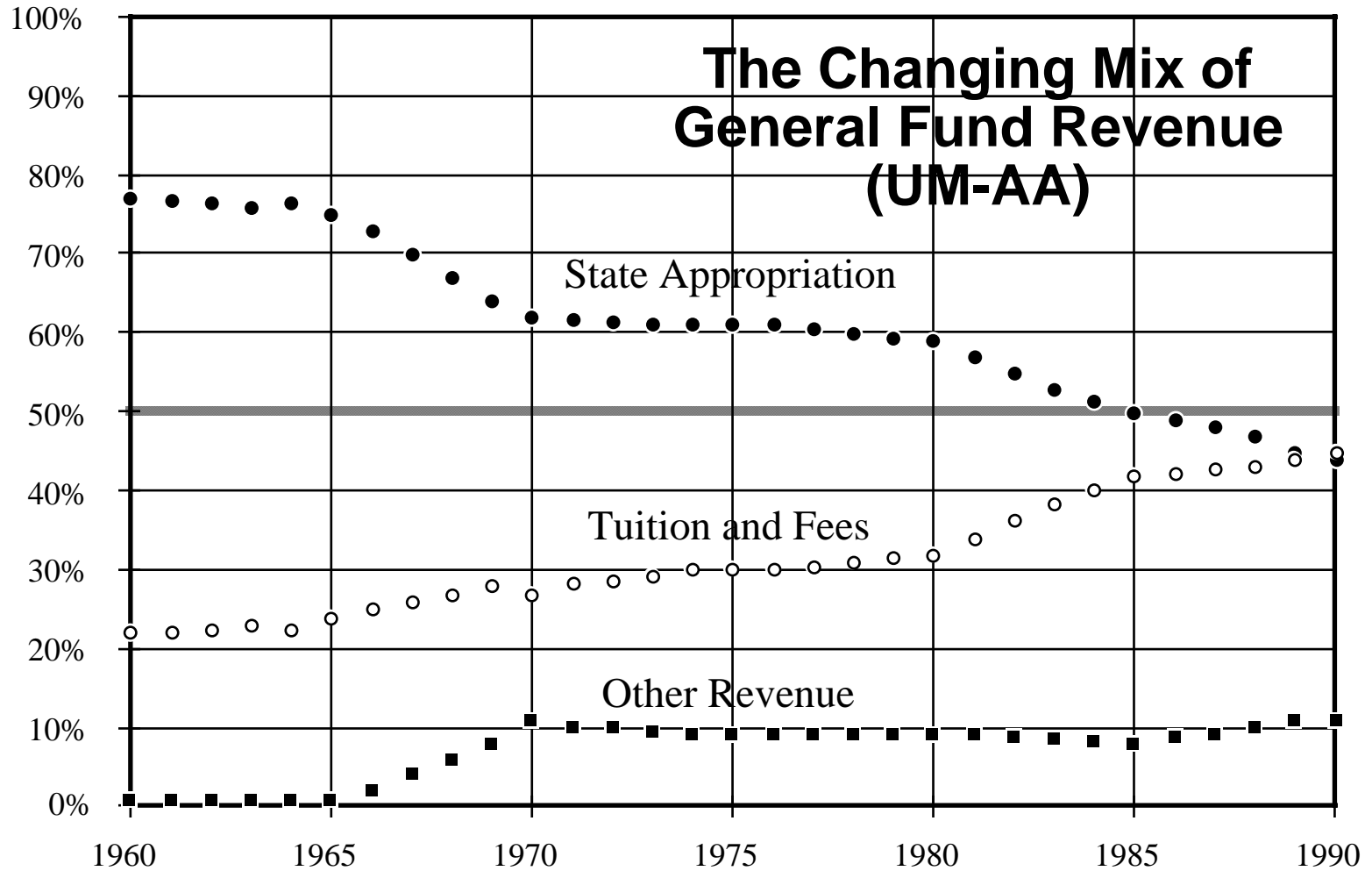
# A Shift in Public Policy

The evolution of our public institutions has been shaped by *the public principle*: the public university is established and supported through general taxation to benefit society. The basic premise is that support should be by society as a whole since society gains benefits from the institution, just as do those individuals participating in its particular educational programs.

Yet, in recent years, both state and federal government have taken actions which shift the costs of public higher education from general tax revenue to the students (and their parents) who benefit most directly from this education.



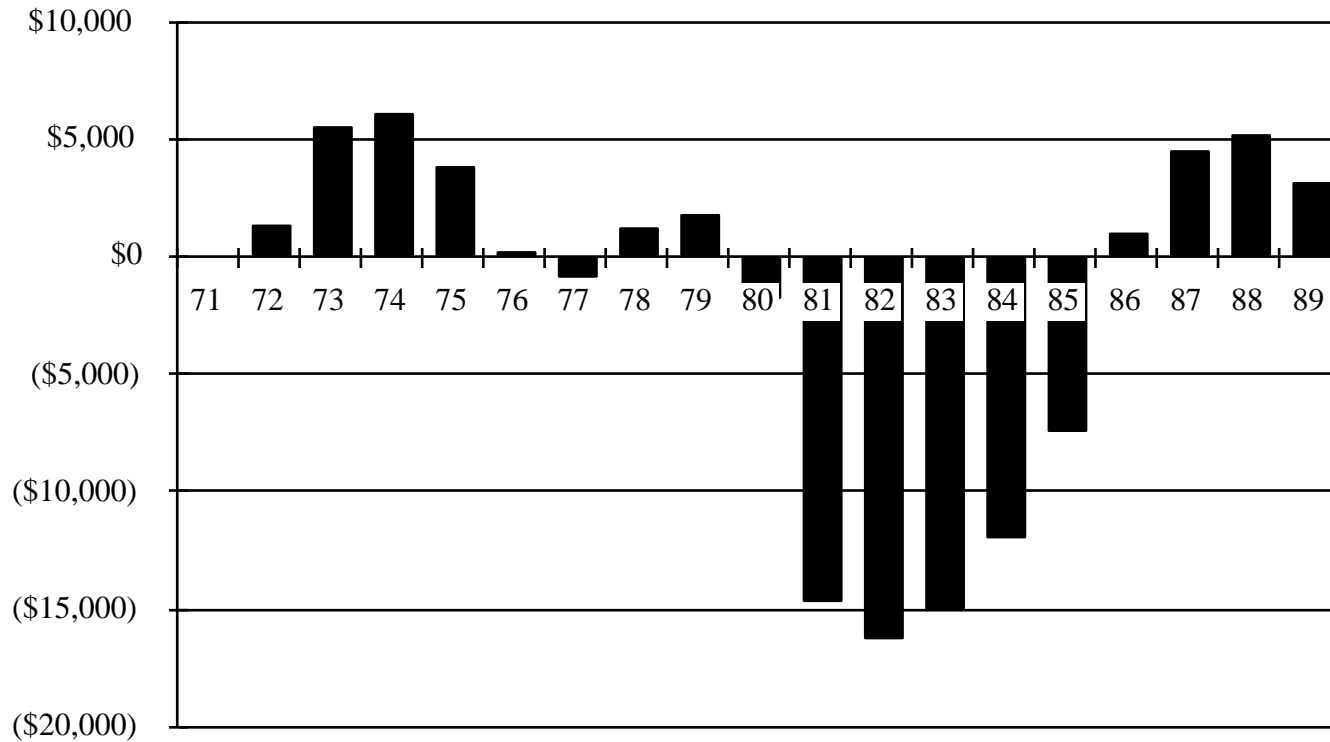
# The Changing Mix of General Fund Revenue (UM-AA)



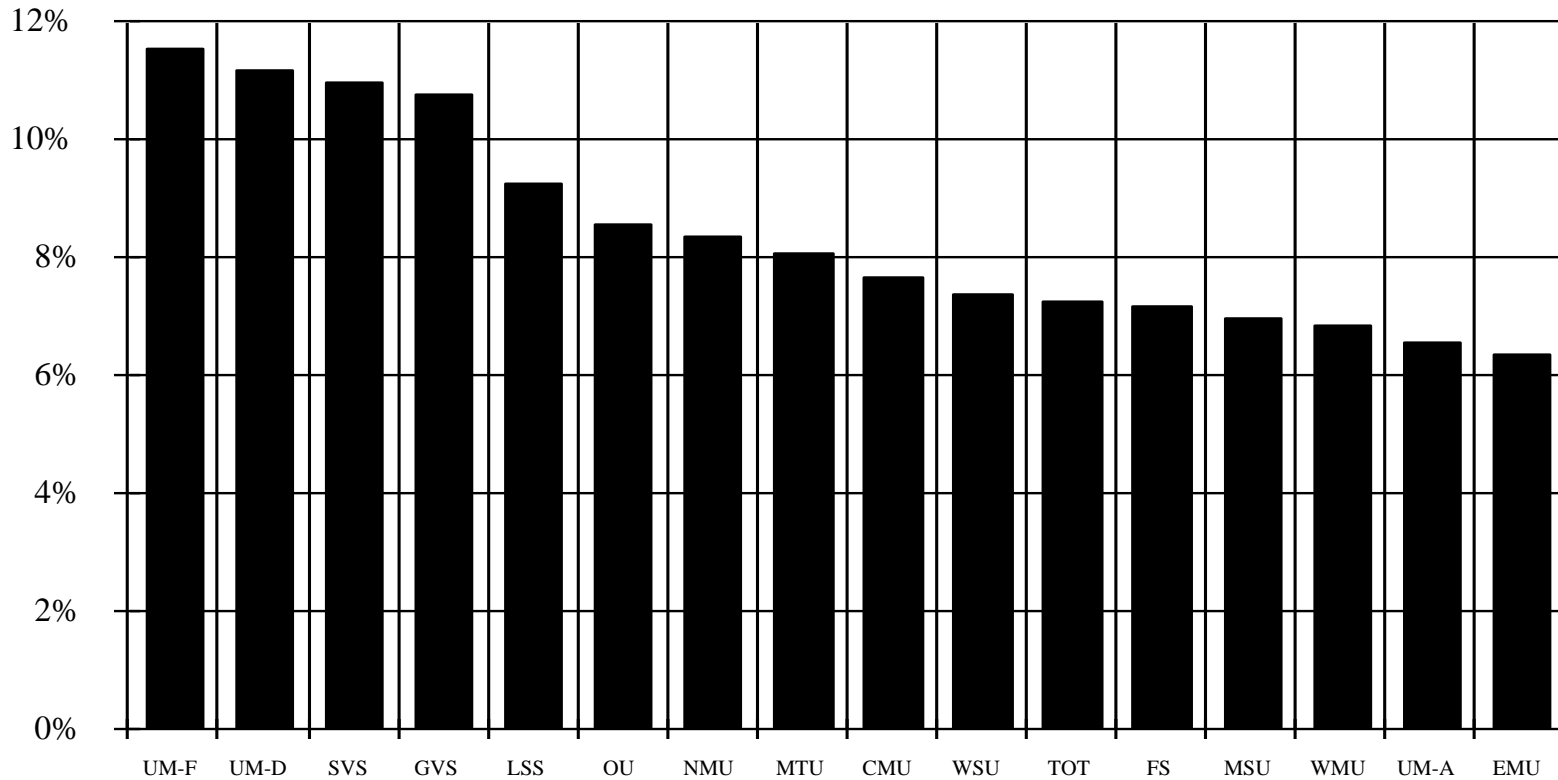
# Michigan's National Rankings State Appropriation for Higher Education

	<u>FY83-84</u>	<u>FY85-86</u>	<u>FY87-88</u>
Two year % increase	42nd	10th	20th
Ten year % increase	50th	43rd	35th
Appro per capita	34th	28th	20th
Appro as % of personal income	36th	32nd	31st

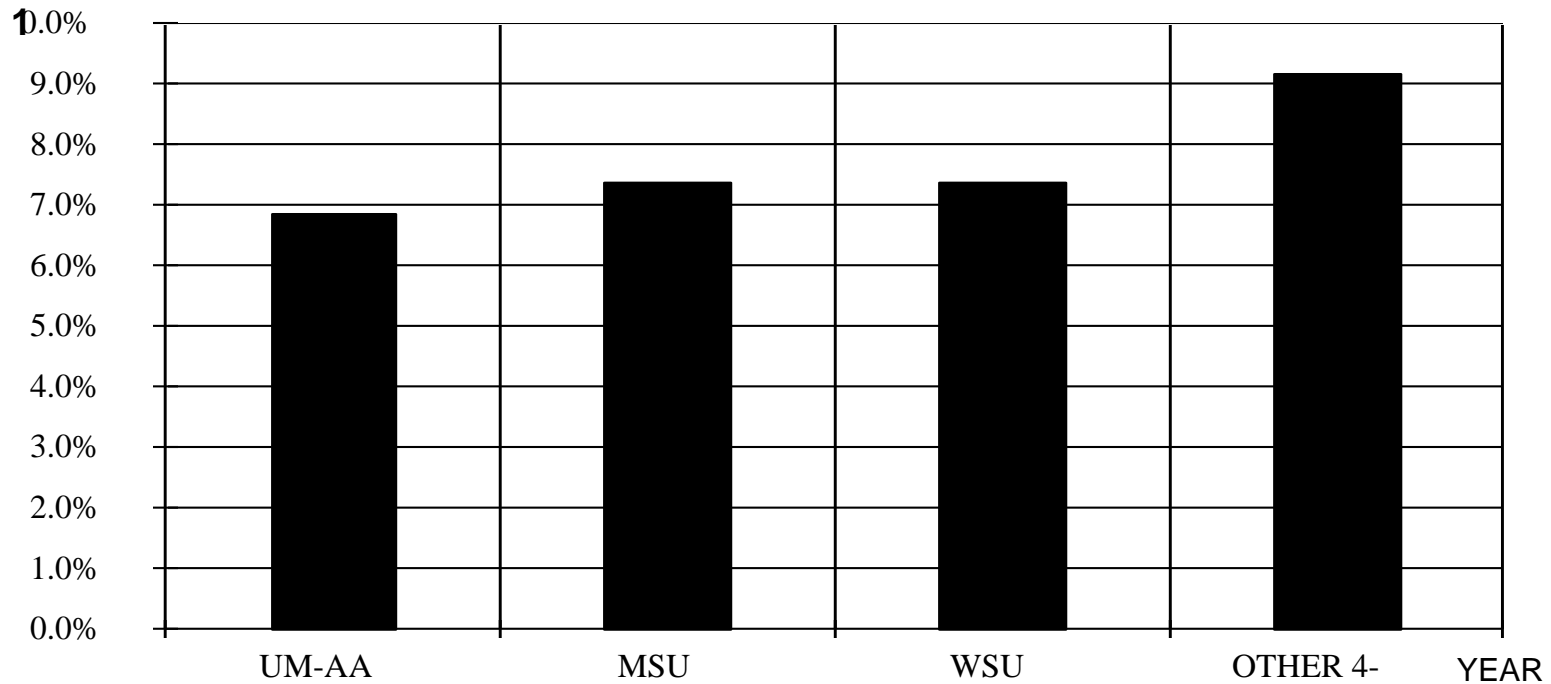
## UM State Appropriations Adjusted for Inflation (000's)



# Annual Percent Growth in State Appropriations Michigan Public Universities: FY71 to FY89

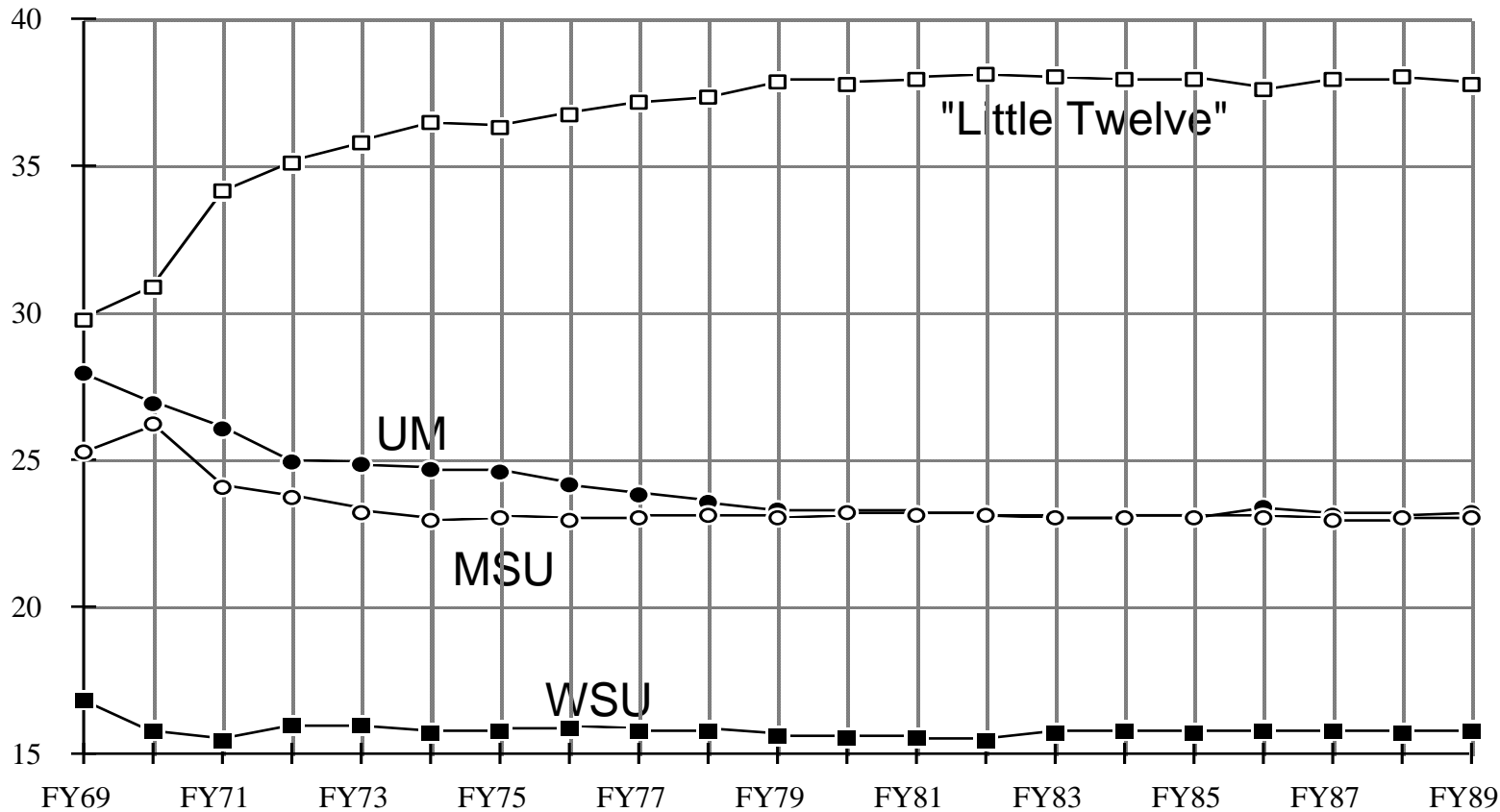


## Annual Percent Growth in State Appropriations for the Big Three: FY69 to FY89

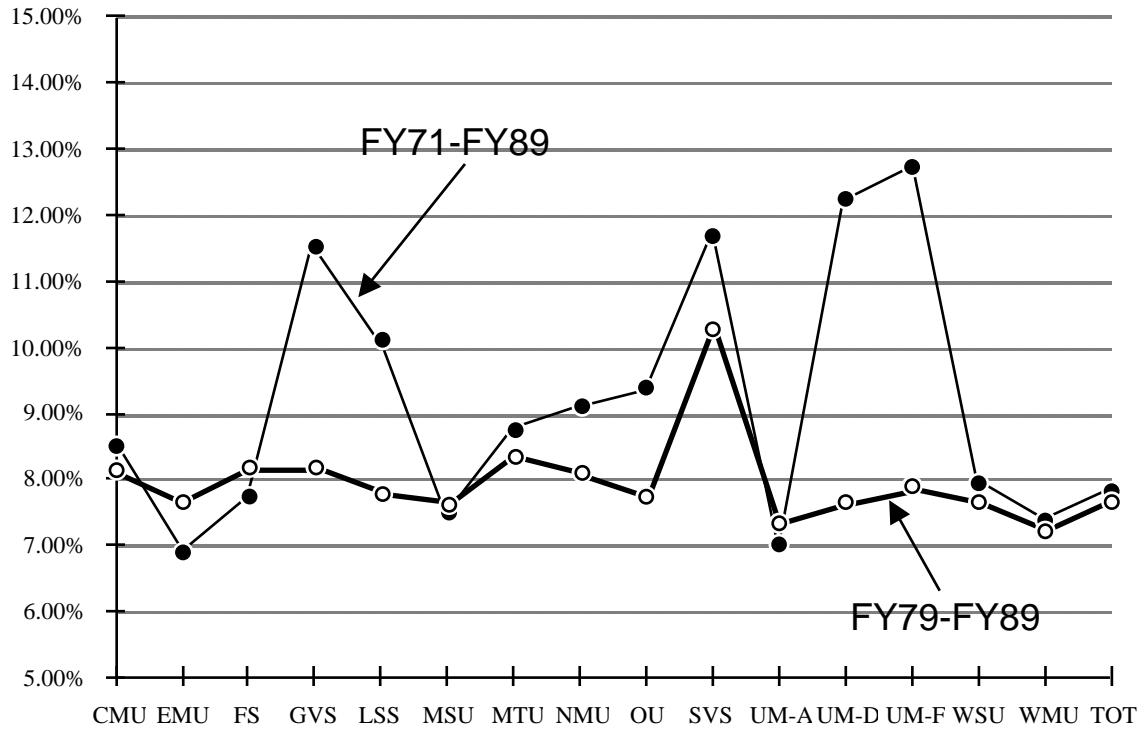




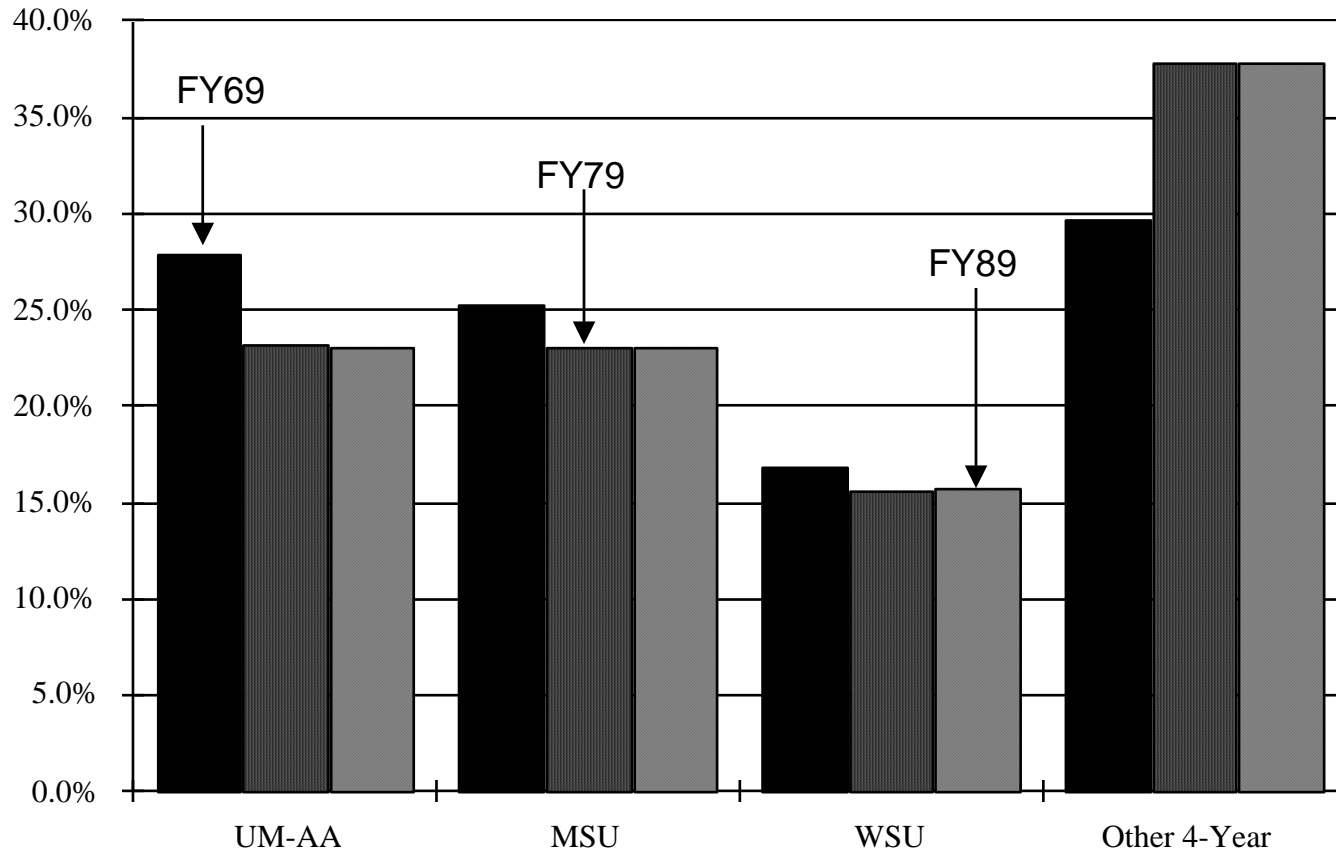
# Share of Total State Appropriations



# Annual Percent Growth in State Appropriations Michigan Public Universities

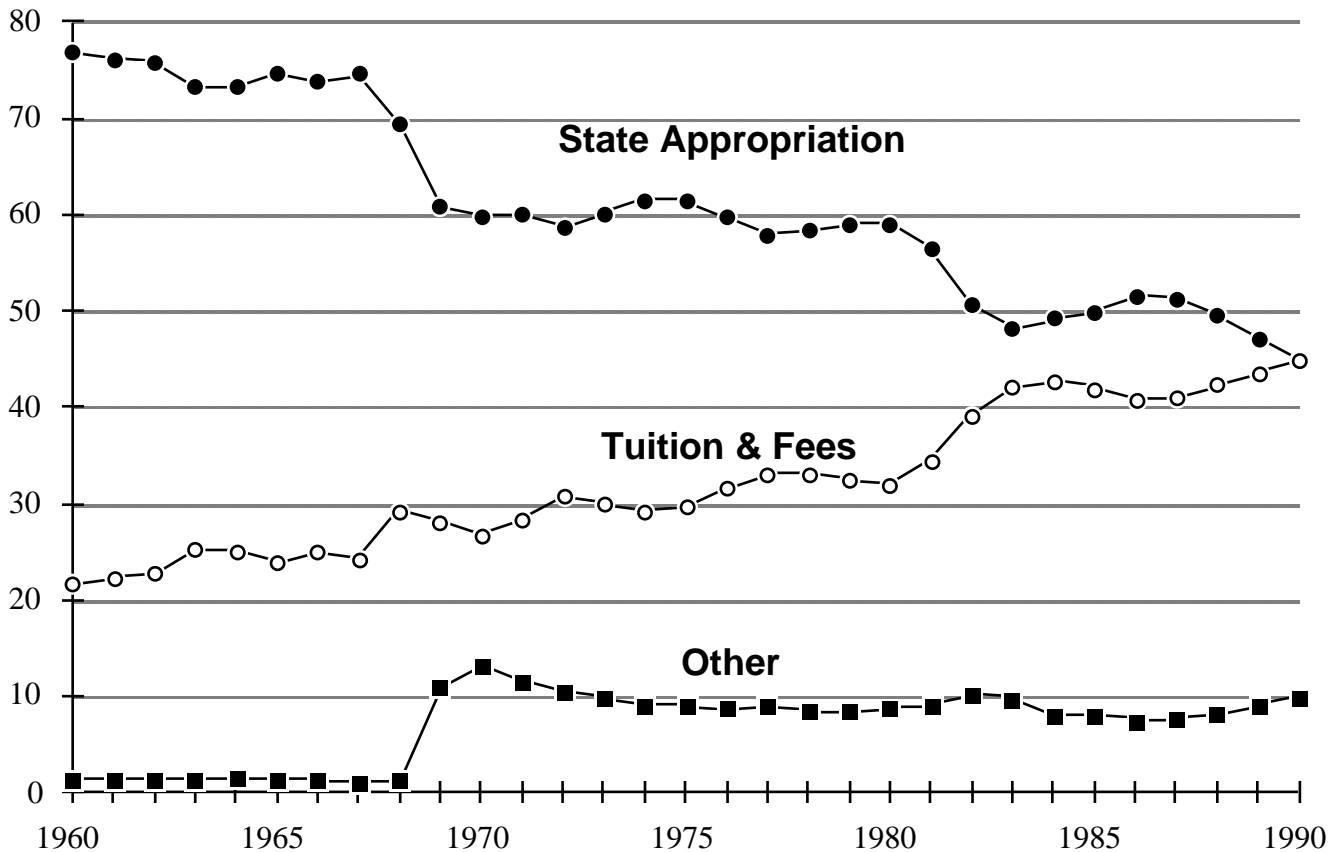


## Share of Total State Appropriations to Big Three Universities: FY69, FY79, FY89

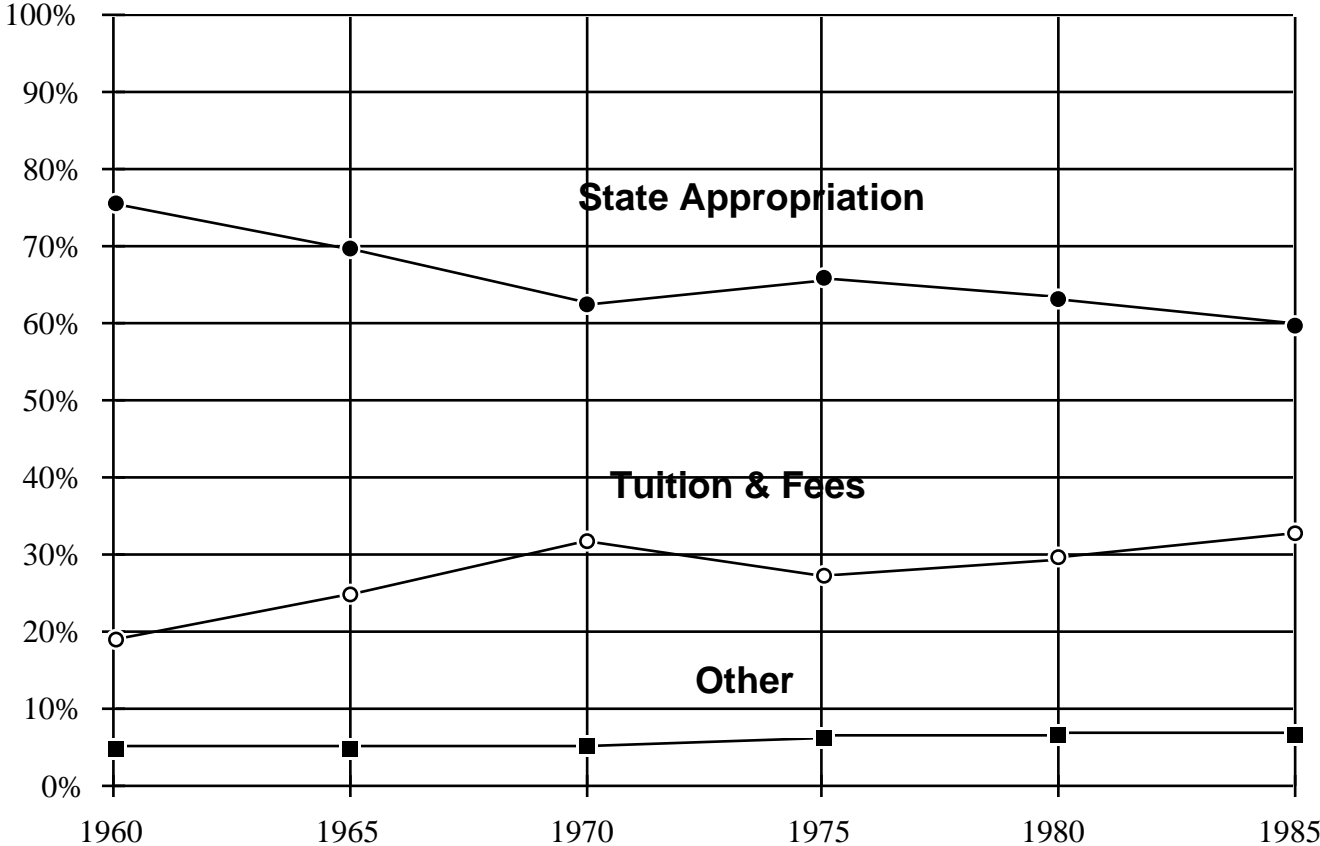


**The Changing Mix  
of  
General Fund Revenues**

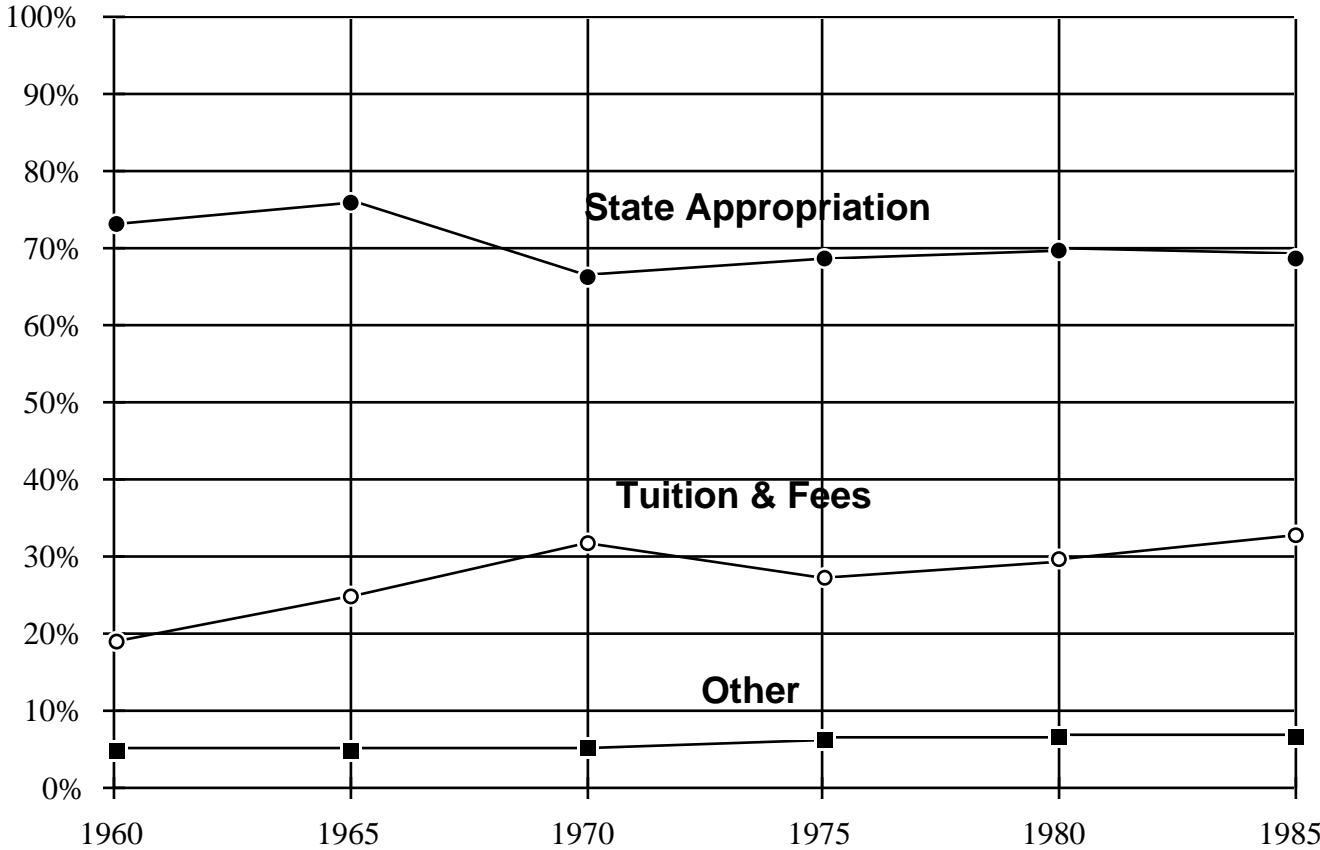
# Changing Mix of General Fund Revenue 1960 to 1990 University of Michigan - Ann Arbor



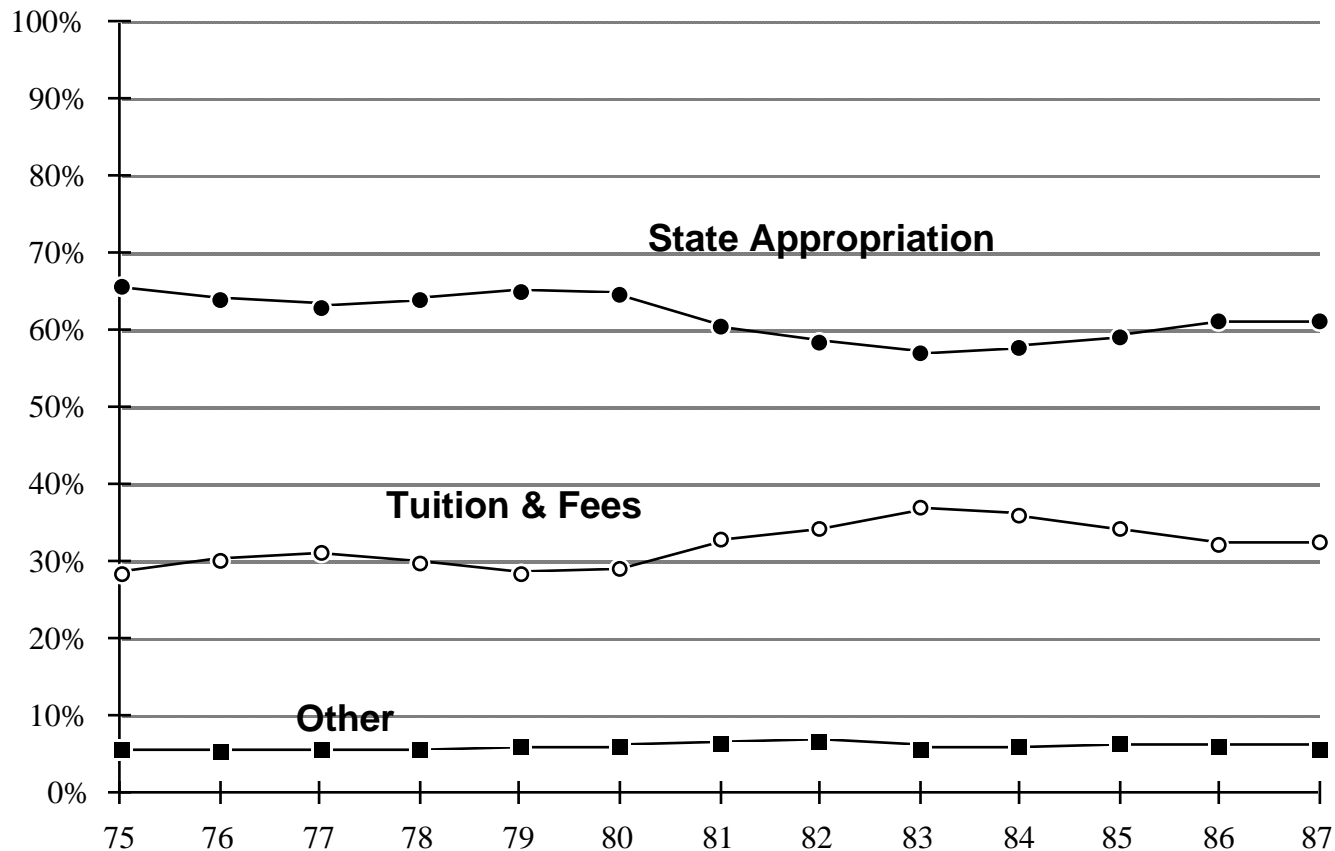
# Changing Mix of General Fund Revenue 1960 to 1990 Michigan State University



# Changing Mix of General Fund Revenue 1960 to 1990 Wayne State University

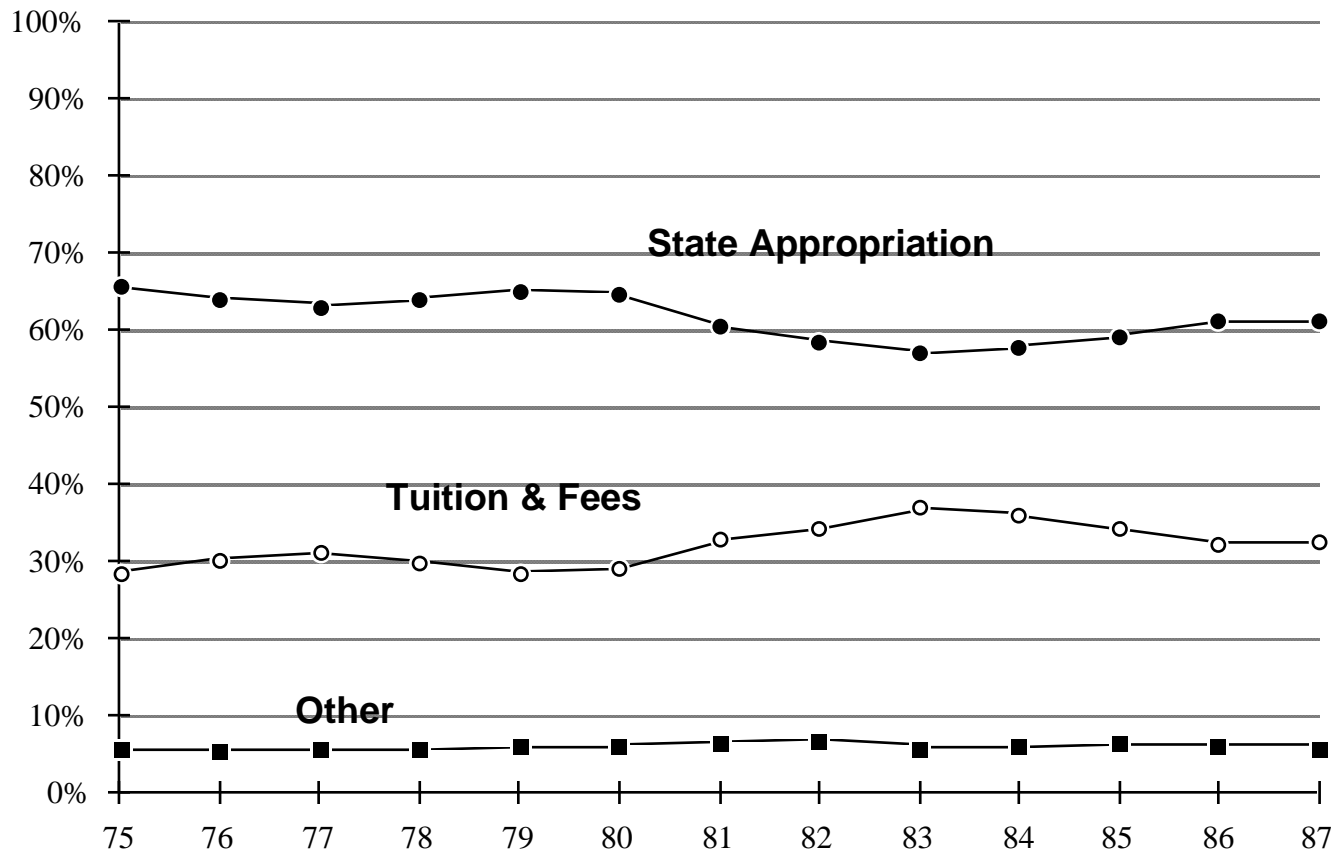


# Changing Mix of General Fund Revenue FY75 - FY87 All Michigan Public Universities

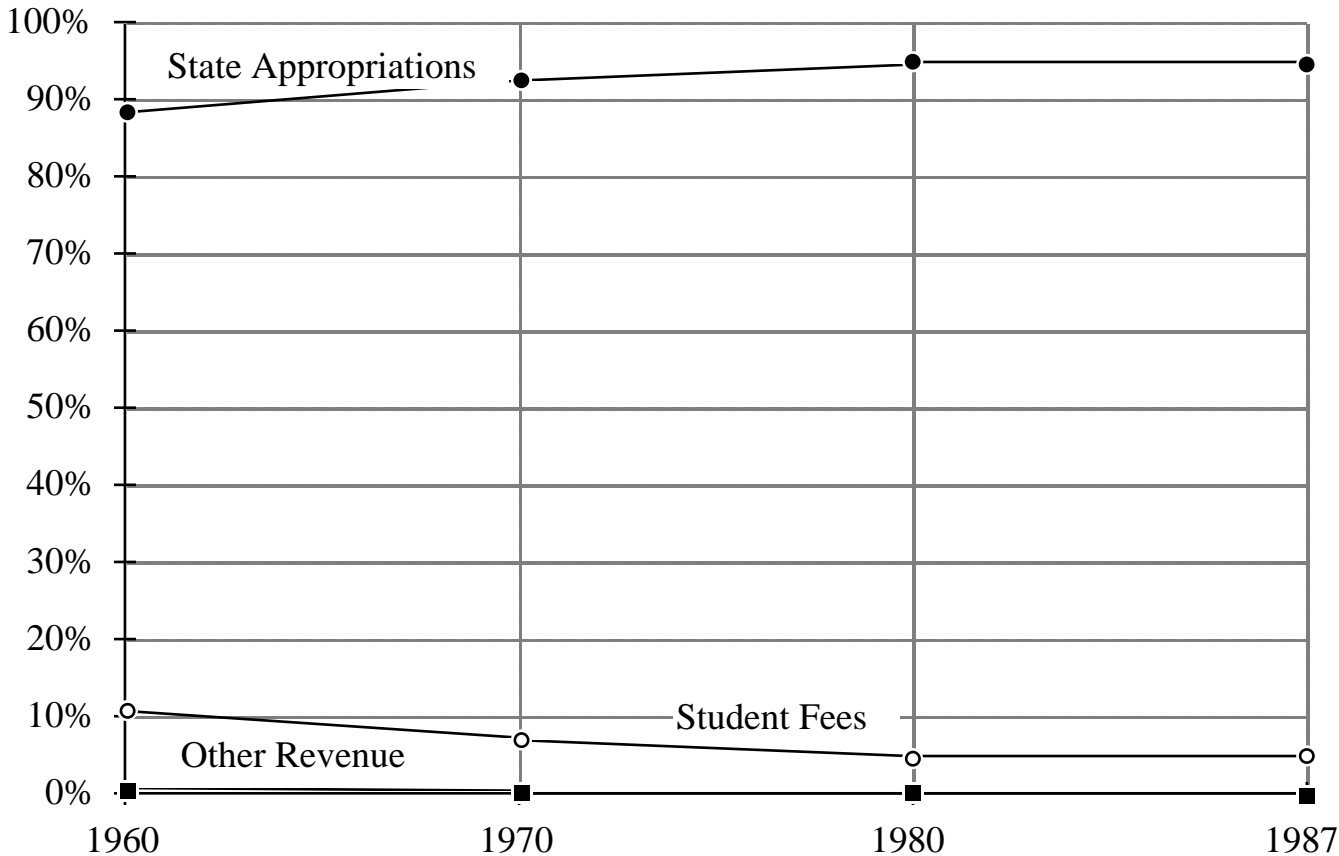




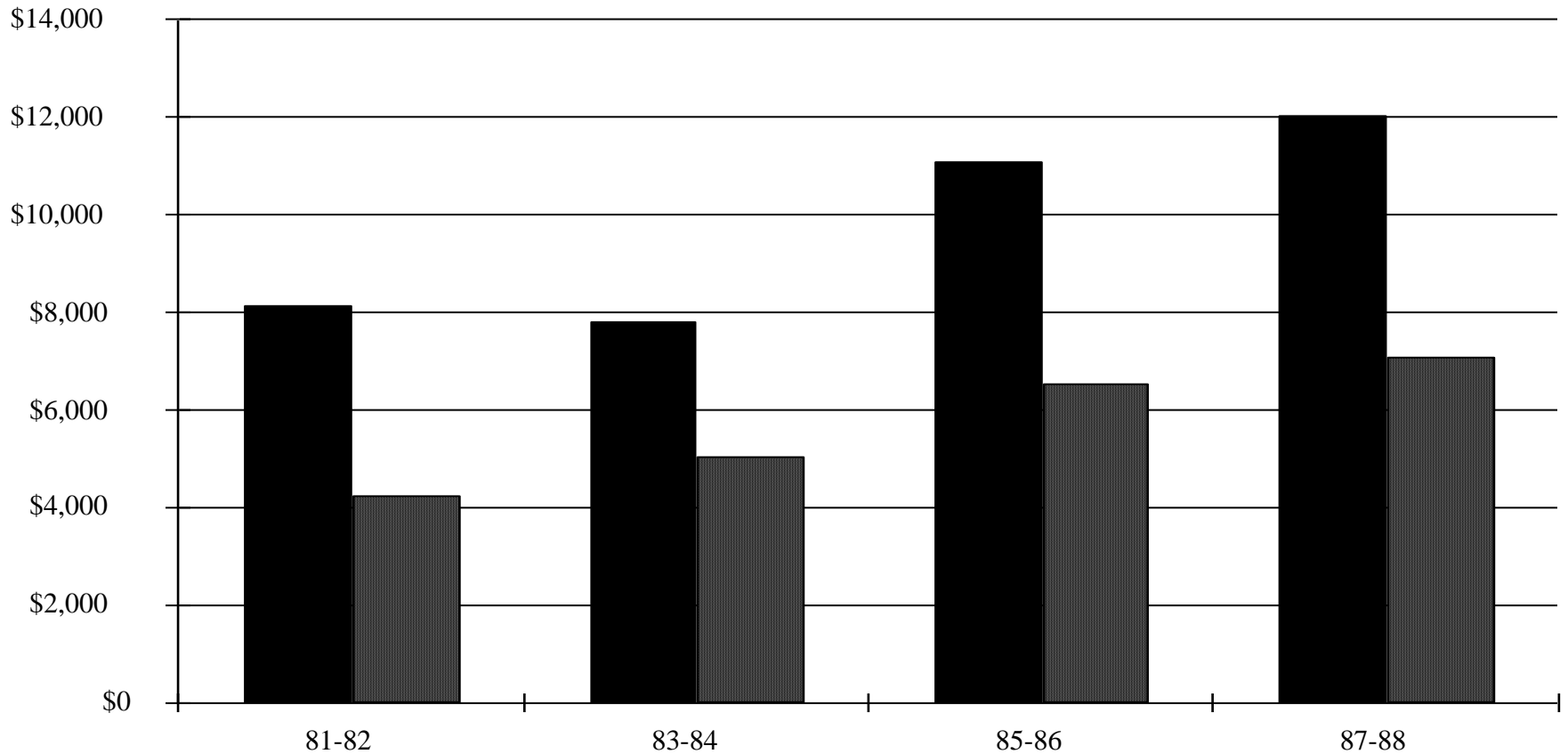
# Changing Mix of General Fund Revenue FY75 - FY87 "The Little Twelve"



# Changing Mix of General Fund Revenue 1960 to 1990 University of California - Berkeley



**State Appropriations per FTE Student  
University of California System  
vs.  
University of Michigan - Ann Arbor**



# **The Costs of a Michigan Education**

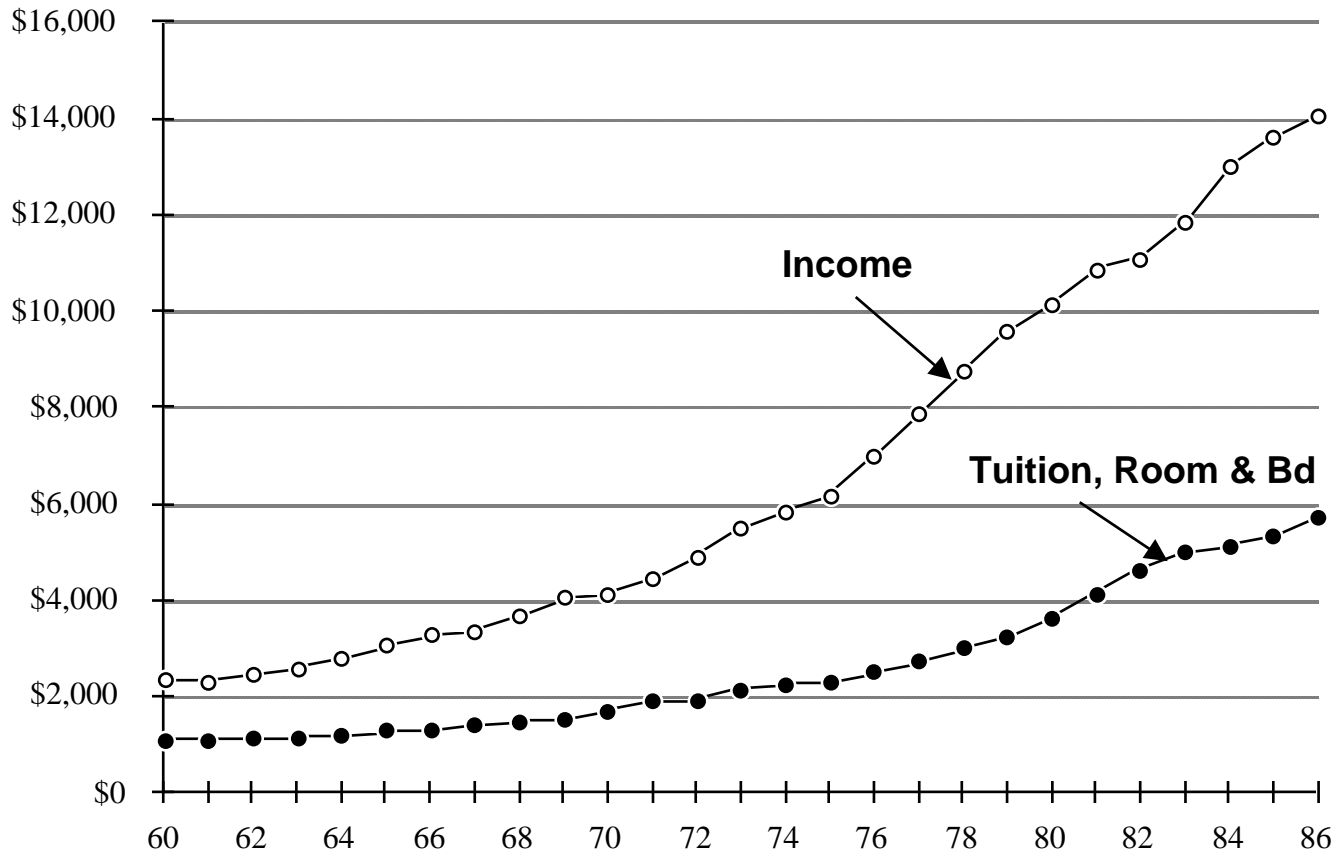
# **Some Observations on the Costs of a College Education**

- 1. From 1970-71 to 1986-87, tuition nationwide has risen at an average rate of 7.8% while the CPI rose at 6.7%.**
- 2. However, there have been studies demonstrating that the costs of college operations generally increase 1.5% to 2.0% faster than the CPI on the average.**
- 3. Because most institutions failed to raise tuitions adequately in the 1970s, they are being forced to raise them more rapidly in the 1980s to make up for lost ground.**
- 4. Public institutions have also been impacted by government policy decisions to shift the costs of education from general tax revenue to the students (and parents) who benefit from the education.**

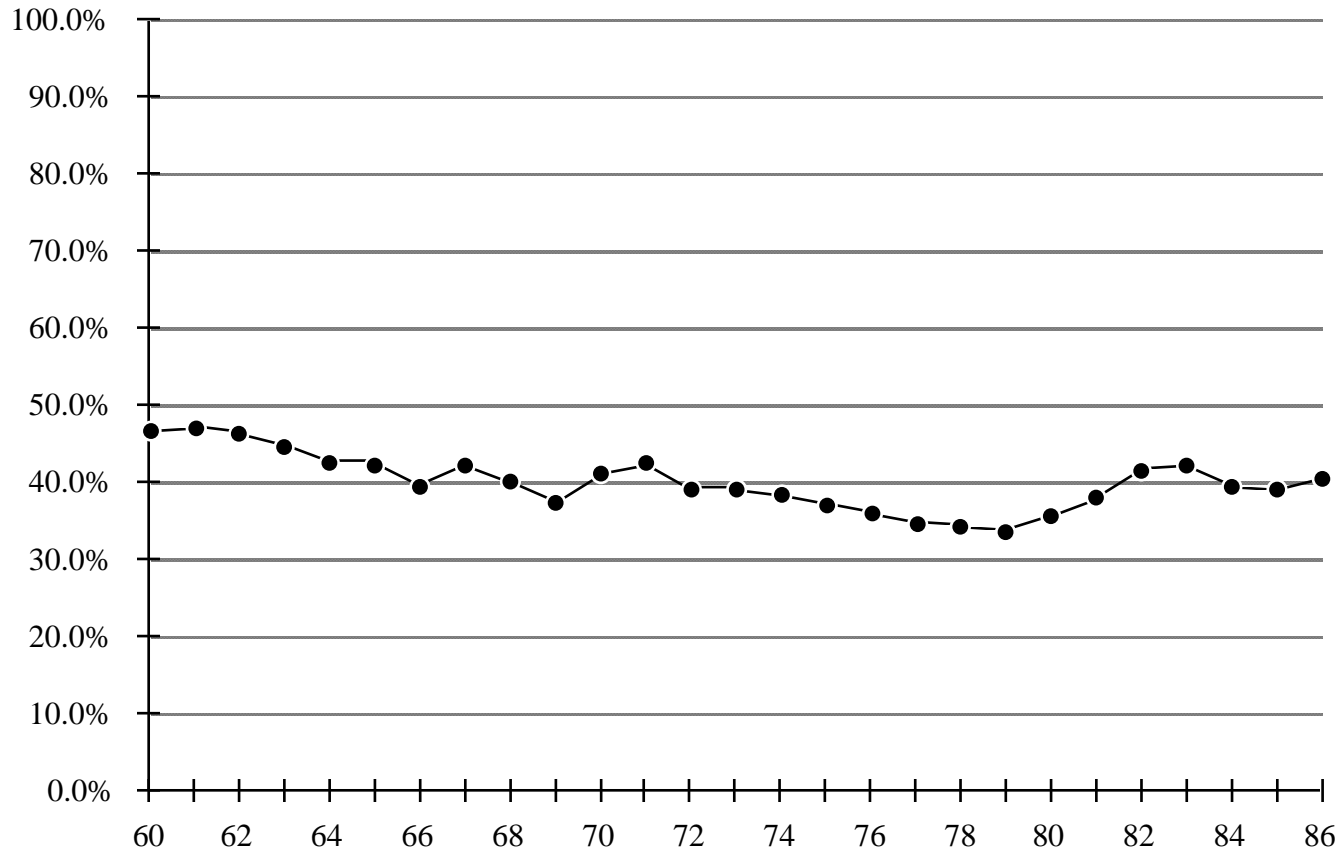
# The Ability to Pay for a College Education

- 1. Tuition increases are NOT increasingly dramatically faster than disposable personal income. Over the past 15 years, tuition has increased 232% while personal income has risen 252%.**
- 2. Over the past two decades there has been very little change in the percentage of income required to meet tuition costs.**
- 3. Indeed, college expenses have risen far more slowly than many other costs, such as the costs of a new home or the costs of health care.**

## Trends in Annual Cost to Michigan Undergraduates vs Trends in Michigan Per Capital Income

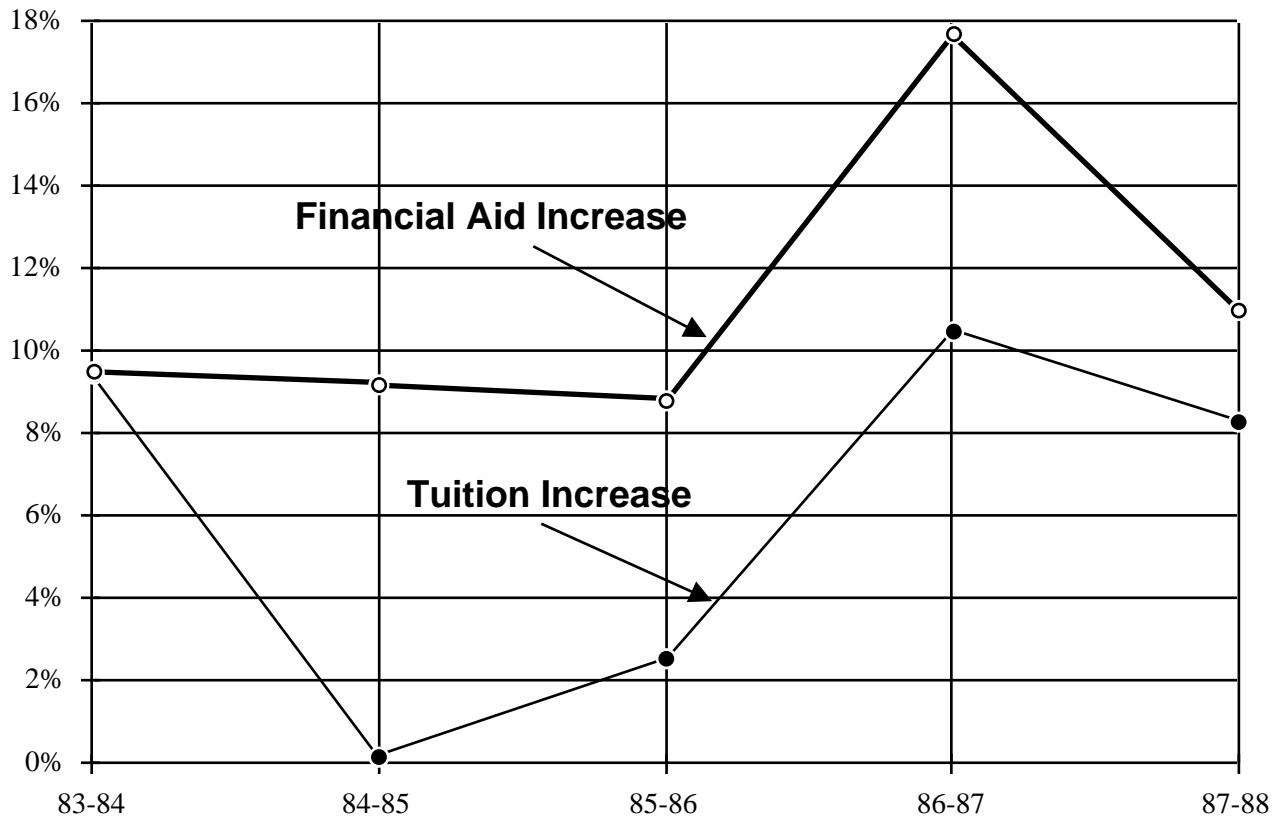


# Annual UM-AA Tuition, Room & Board as a Percent of Michigan Per Capita Income 1960 - 1986

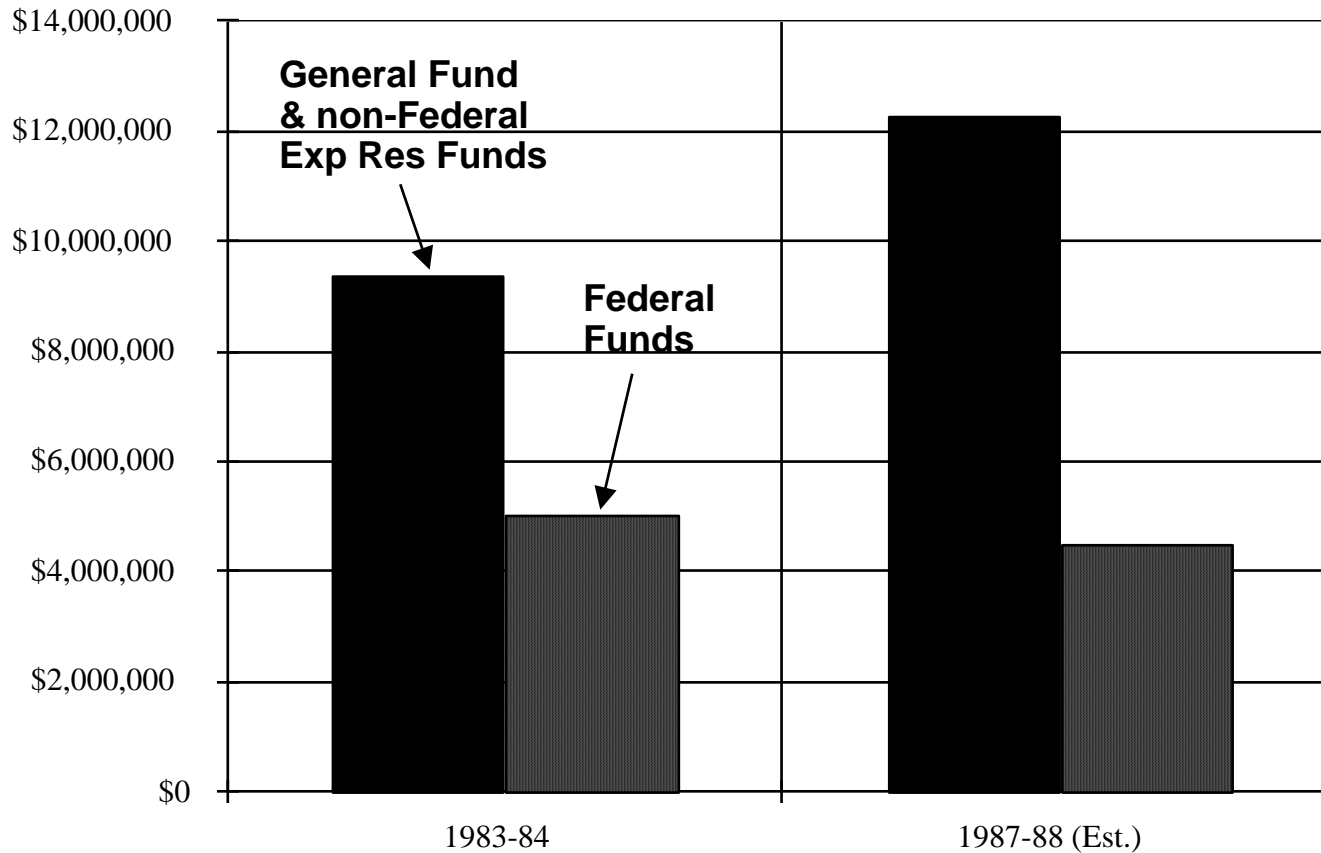




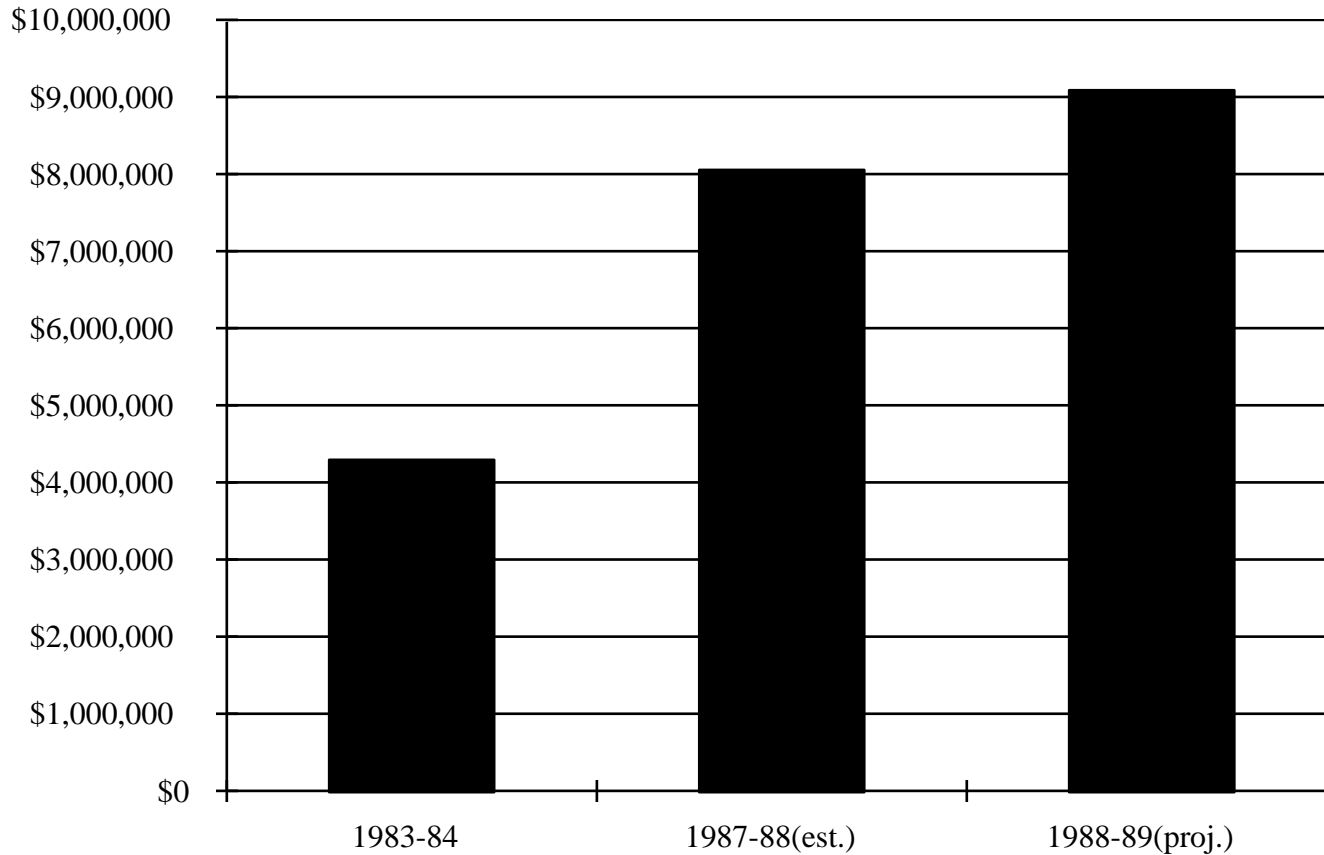
# UM-AA General Fund Financial Aid Budget Increases Compared to Tuition Rate Increases



## Changing Levels of Scholarships and Grants by Source of Funds



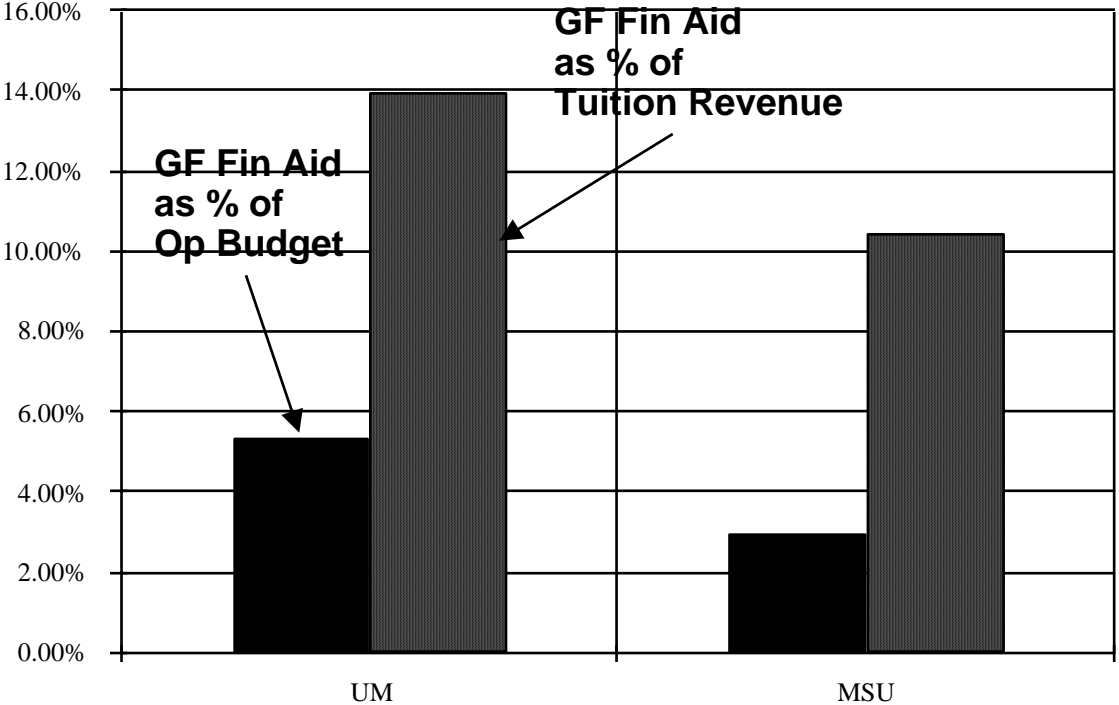
## Financial Aid Expenditures in Key Minority Grant Programs



# General Fund Financial Aid Expenditures UM-AA vs. MSU, 1986-87

Actual Expenditures  
\$23,905,129

Actual Expenditures  
\$10,111,270

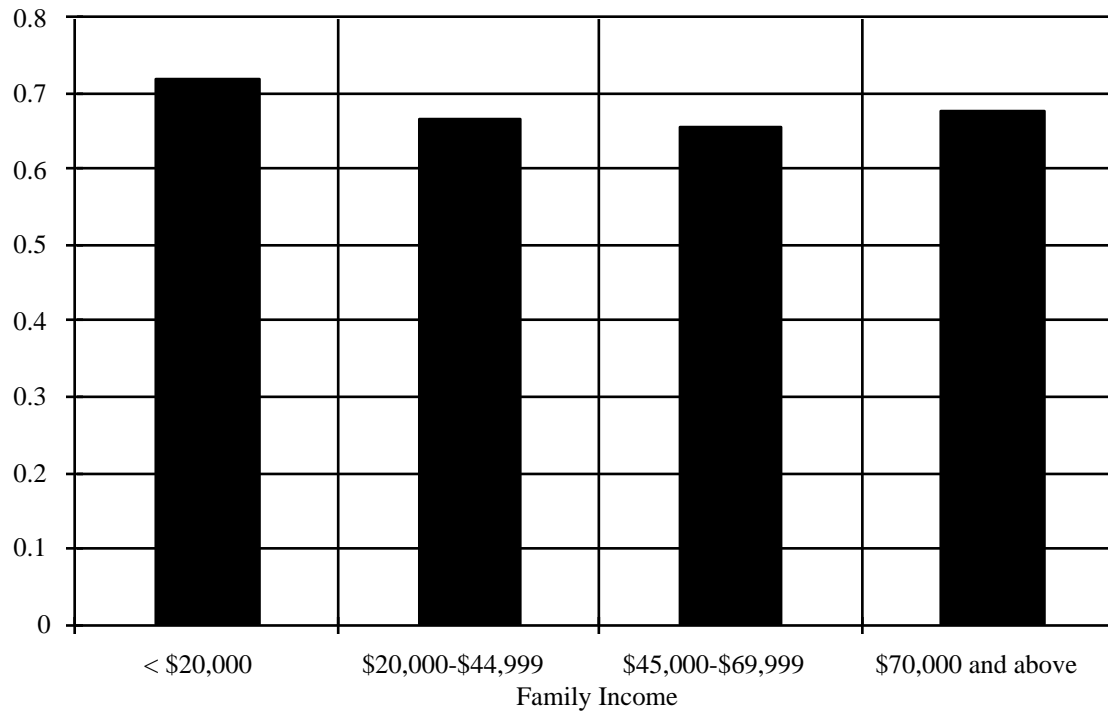


## **UM-AA Financial Aid All Sources and Types**

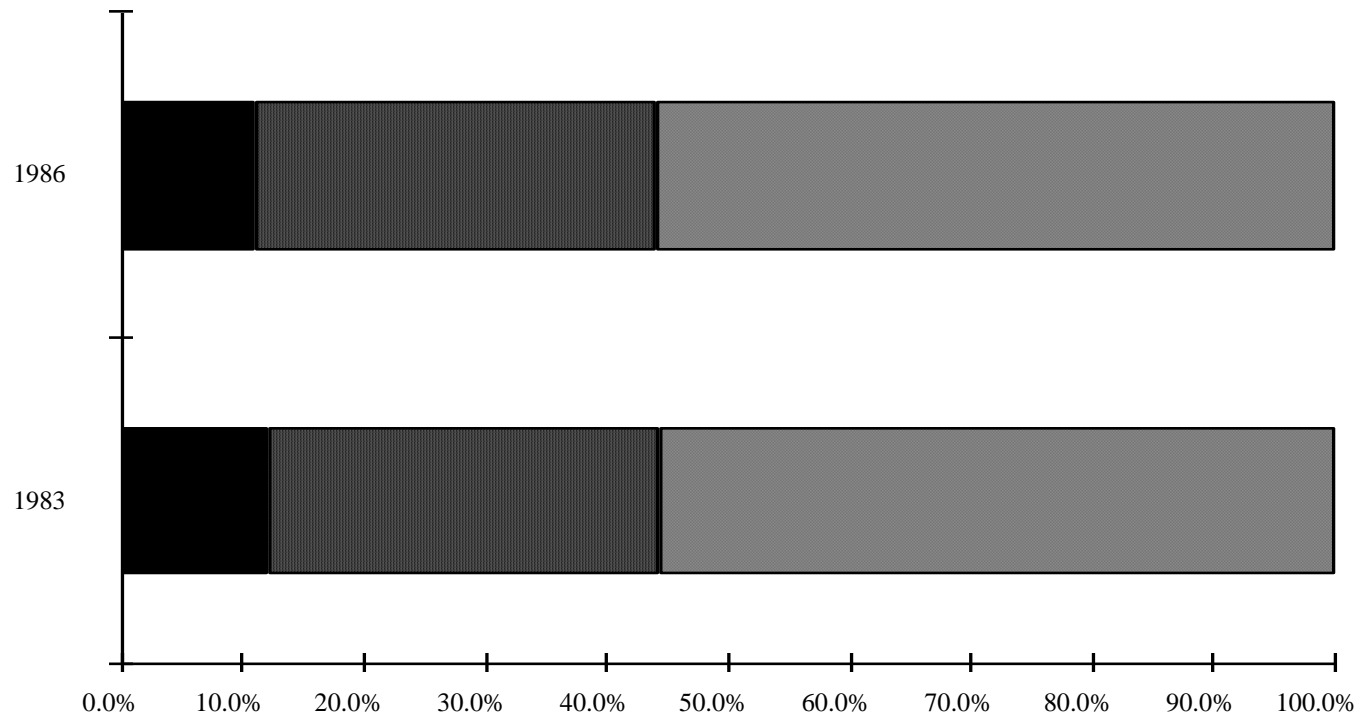
<b>Scholarships</b>	<b>\$56 million</b>
<b>Loans:</b>	<b>\$30 million</b>
<b>Employment:</b>	<b>\$31 million</b>
<b>Total Financial Aid:</b>	<b>\$117 million</b>

**Note: Roughly 65% to 70% of students receive some form of financial aid.**

## Proportion of Admitted Freshmen Who Enroll by Family Income Level



## Distribution of Entering Freshmen by Family Income: Fall 1983 and Fall 1986



**How much are other institutions  
planning on increasing tuition and fees?**



# Peer Private Institutions

<u>Institution</u>	<u>Tuition</u>	<u>Staff Salaries</u>	<u>Faculty Salaries</u>
A	8.0%	5.0%	6.0%
B	6.7%	4.0%	6.5%
C	8.4%	8.0%	8.0%
D	10.0%	5.5%	5.5%
E	6.0%	7.5%	7.0%
F	9.1%	4.0%	6.0%
G	9.2%	5.5%	8.5%
H	7.2%	5.5%	6.8%
I	10.0%	4.0%	6.0%
J	9.6%	5.5%	6.8%
K	7.4%	4.0%	7.0%
L	8.0%	6.0%	6.5%
M	5.75%	5.0%	7.0%
N	11.6%	4.0%	6.0%
O	9.5%	5.0%	7.0%
P	8.5%	7.0%	9.5%
<b>Averages:</b>	<b>8 - 10%</b>	<b>4 - 6%</b>	<b>6 - 8%</b>

# Big Ten Institutions

<u>Institution</u>	<u>State App</u>	<u>Tuition</u>	<u>Salaries</u>	
A	0.0	6.7%	6.5%	
B	2.7%	22.0%	6.0%	
C	7.1%	5.5%	5.0%	
D	7.0%	12.0%	10.0%	
E	0.8%	10.0%	4.0%	
F	0.8%	13.0%	4.0%	
G	3.5%	5.4%	5.0%	
H	0.0	5.5%	5.5%	
I	4.1%	10.9%	7.7%	
J	6.4%	7.6%	4.5%	
K	4.0%	5.0%	2.0%	
	<b>Ranges:</b>	<b>1 - 7%</b>	<b>5 - 22%</b>	<b>4 - 10%</b>

## Big Ten Institutions\*

<u>Institution</u>	<u>State App</u>	<u>Tuition</u>	<u>Salaries</u>
B	2.7%	22.0%	6.0%
C	7.1%	5.5%	5.0%
D	7.0%	12.0%	10.0%
E	0.8%	10.0%	4.0%
F	0.8%	13.0%	4.0%
I	4.1%	10.9%	7.7%
J	6.4%	7.6%	4.5%
<b>Ranges:</b>	<b>1 - 7%</b>	<b>5 - 22%</b>	<b>4 - 10%</b>

\*Excepting private institutions and those institutions with state-controlled tuition levels.

# Michigan Colleges and Universities

## Institution

## Tuition and Fees

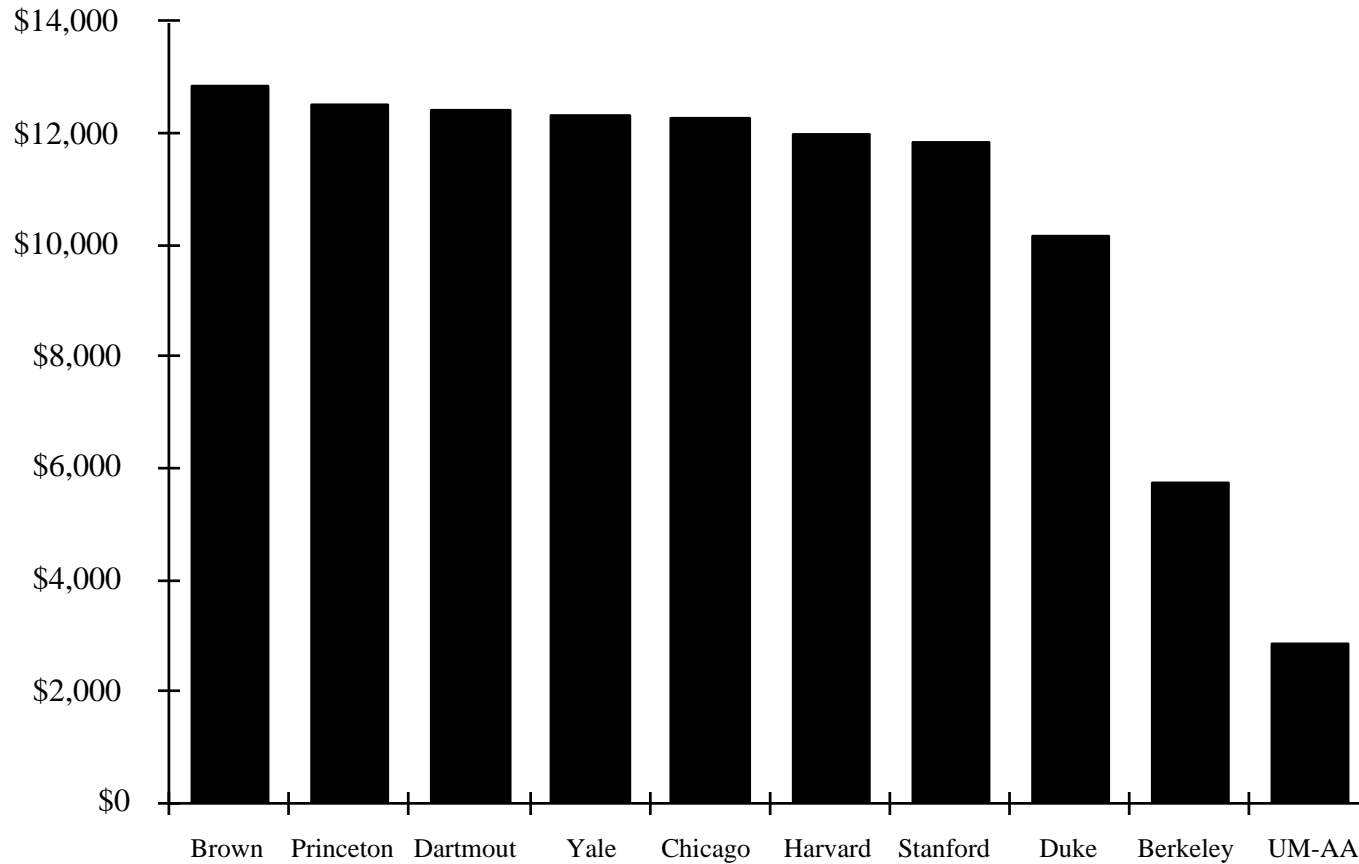
A	11.5%
B	10% minimum
C	10% minimum
D	> 10%
E	10% - 15%
F	13%
G	10% - 15%%
H	13.3%
I	9.7%
J	not available yet
K	not available yet
L	10%
M	10%

## **Some Final Observations...**

## Tuition Cost to a Michigan Resident at the Top Ten National Universities (USN&WR)

<u>Institution</u>	<u>1987-88 Tuition</u>
1. Stanford	\$11,880
2. Harvard	12,015
3. Yale	12,360
4. Princeton	12,550
5. UC Berkeley	5,766
6. Dartmouth	12,474
7. Duke	10,214
8. Chicago	12,300
9. UM	2,883
10. Brown	12,876

## Tuition Costs for a Michigan Resident at the Top Universities

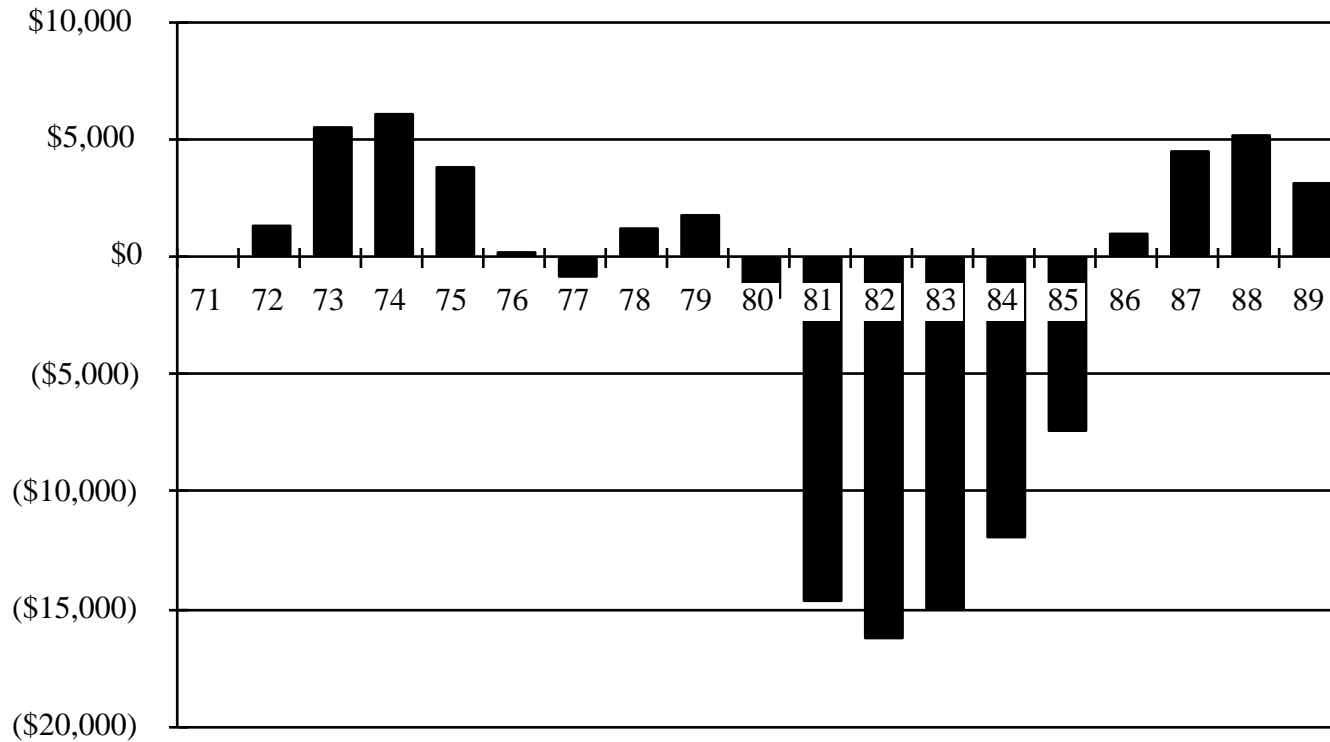


# **The Challenge of Excellence**

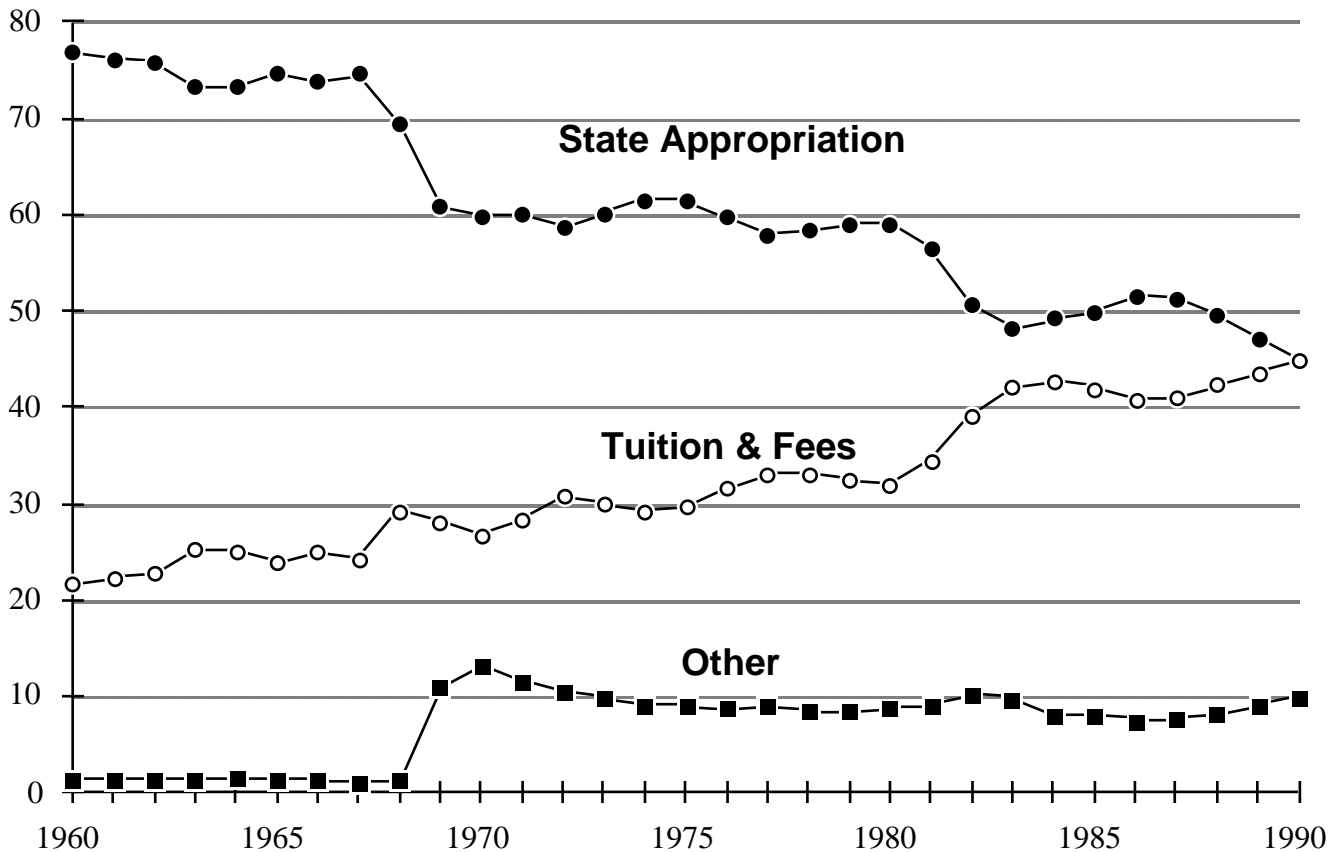
- 1. Today, the University of Michigan attracts students and faculty of unmatched quality. We have a responsibility to develop this vital human resource to the fullest through academic programs of outstanding quality.**
- 2. Furthermore, our capacity to serve the State of Michigan and its citizens will be determined by, more than any other factor, the quality of our programs.**
- 3. Yet, by any measure, our academic programs continue to be underfunded by a very significant amount in base support relative to peer public and private institutions.**
- 4. Even as we commit ourselves to serving the people of Michigan, we must also recognize the true costs of quality and take steps to provide the support necessary to sustain it.**



## UM State Appropriations Adjusted for Inflation (000's)



# Changing Mix of General Fund Revenue 1960 to 1990 University of Michigan - Ann Arbor



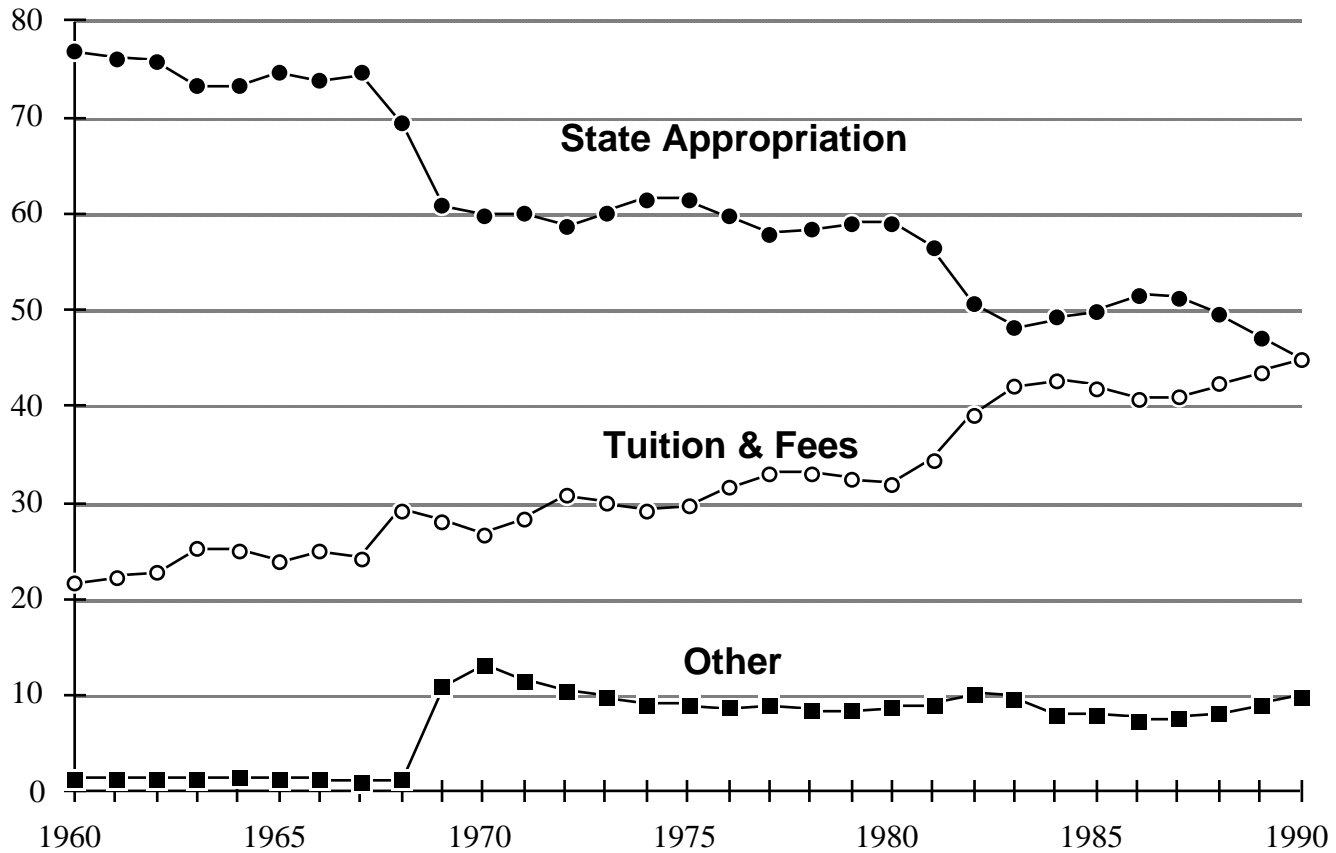
# The Writing on the Wall

- 1. In a very real sense, the growth in the capacity of the University to serve the citizens of the state of Michigan is being provided predominantly by our students, private donors, and the federal government. The growth in state appropriations simply has not kept pace over the past two decades with the very real needs of this University.**
- 2. Our capacity to attract these resources, to compete for federal grants, to attract strong private support, will be determined, more than by any other factor, by our excellence--the quality of our activities in teaching and research.**
- 3. Here, then, is one of the most important--albeit pragmatic--links between the excellence to which we aspire and our capacity to serve the citizens of this state.**

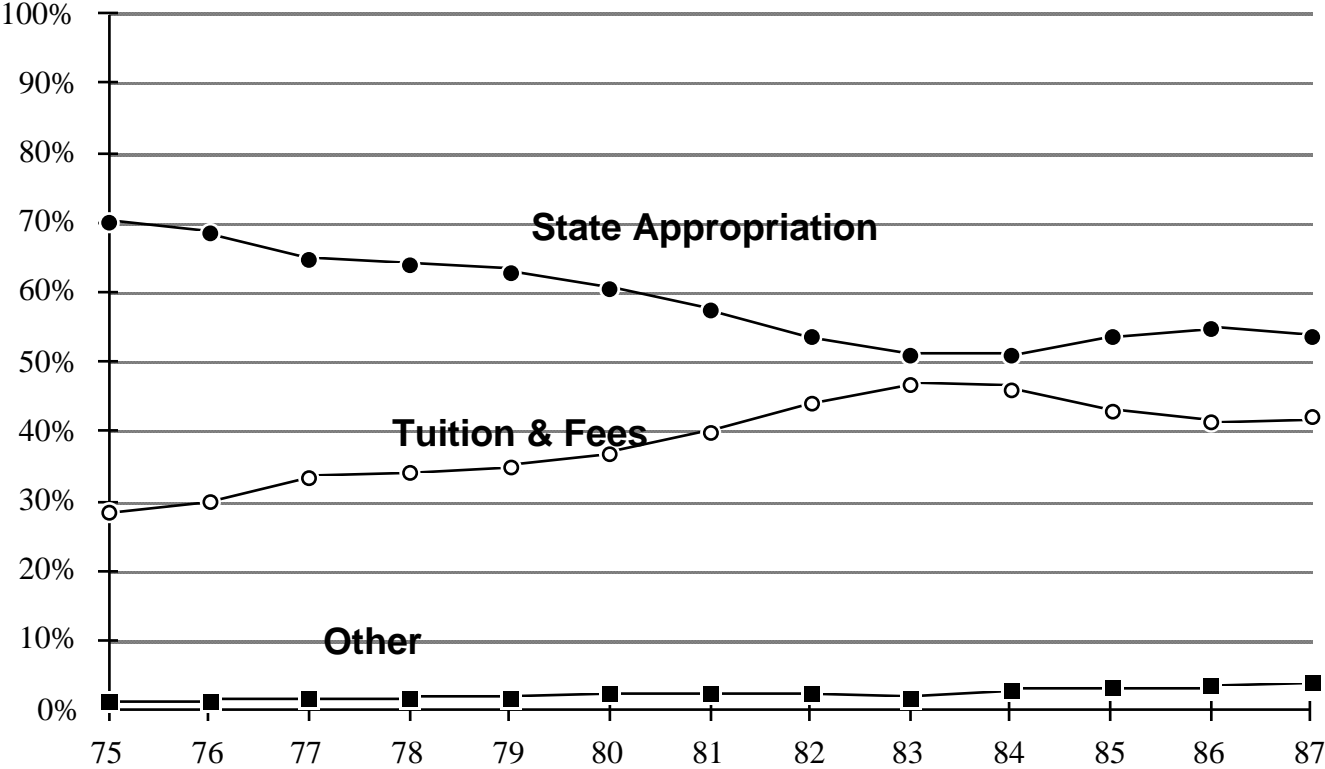
# **Appendix**

## **Comparisons of General Fund Revenue Mix for Michigan Public Universities**

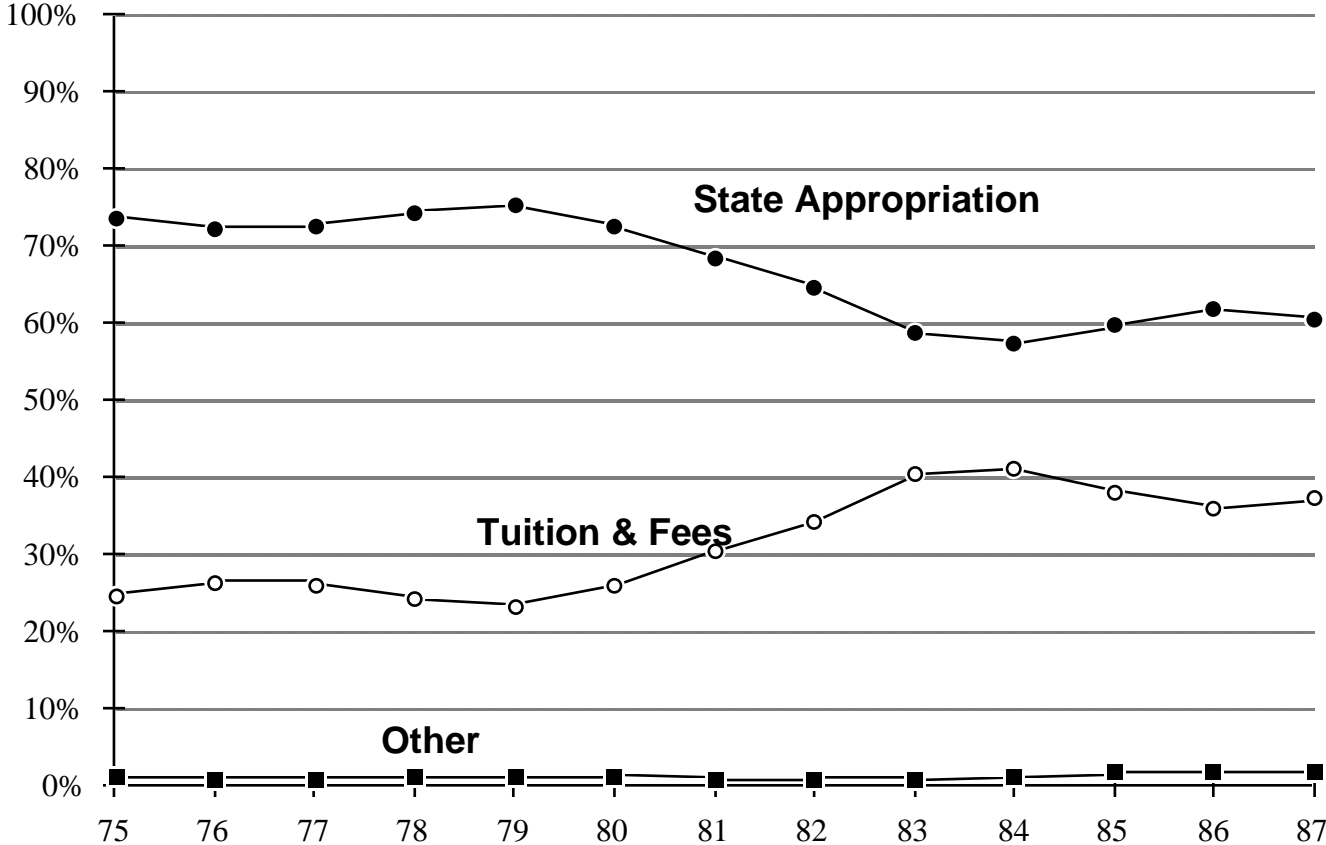
# Changing Mix of General Fund Revenue 1960 to 1990 University of Michigan - Ann Arbor



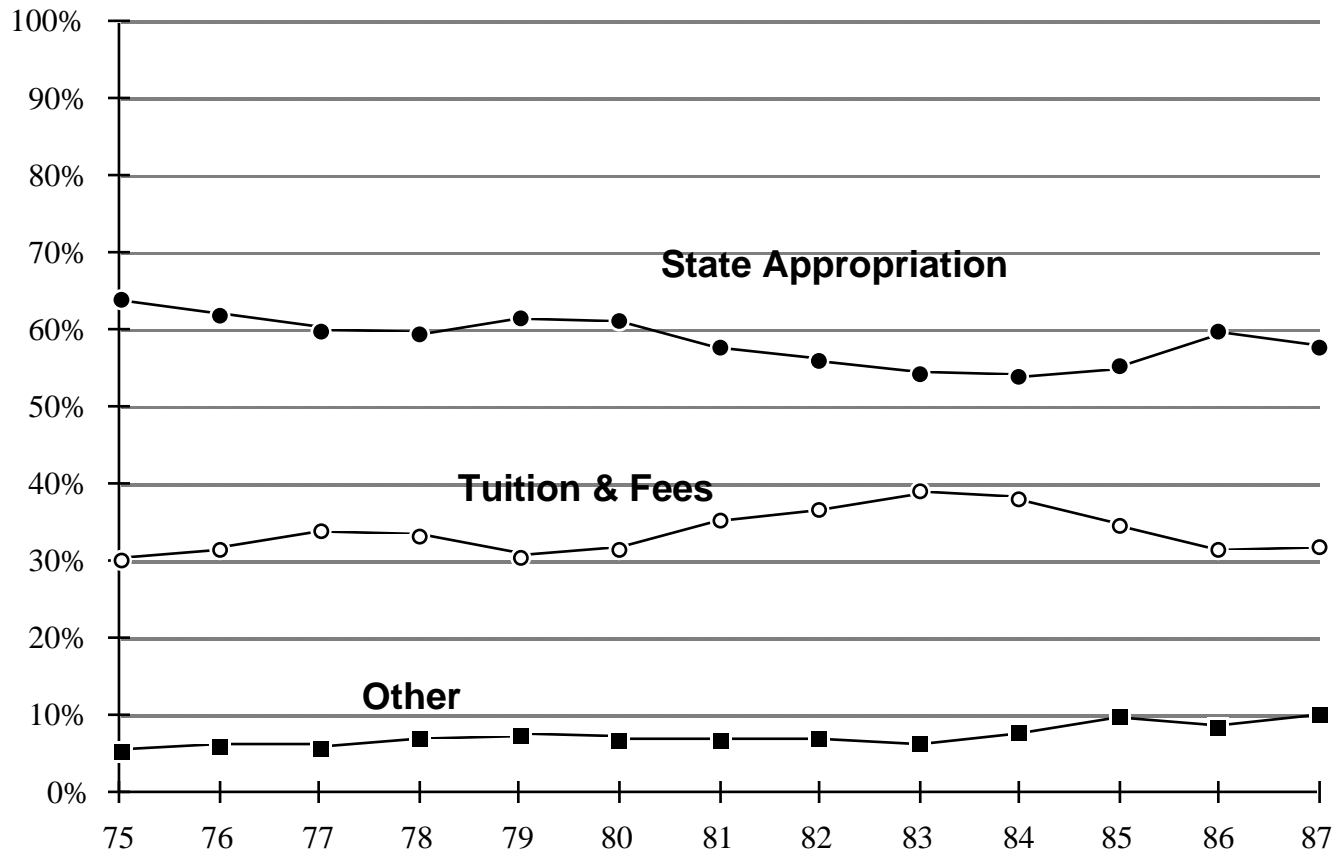
# Changing Mix of General Fund Revenue FY75 - FY87 UM-D



# Changing Mix of General Fund Revenue FY75 - FY87 UM-F

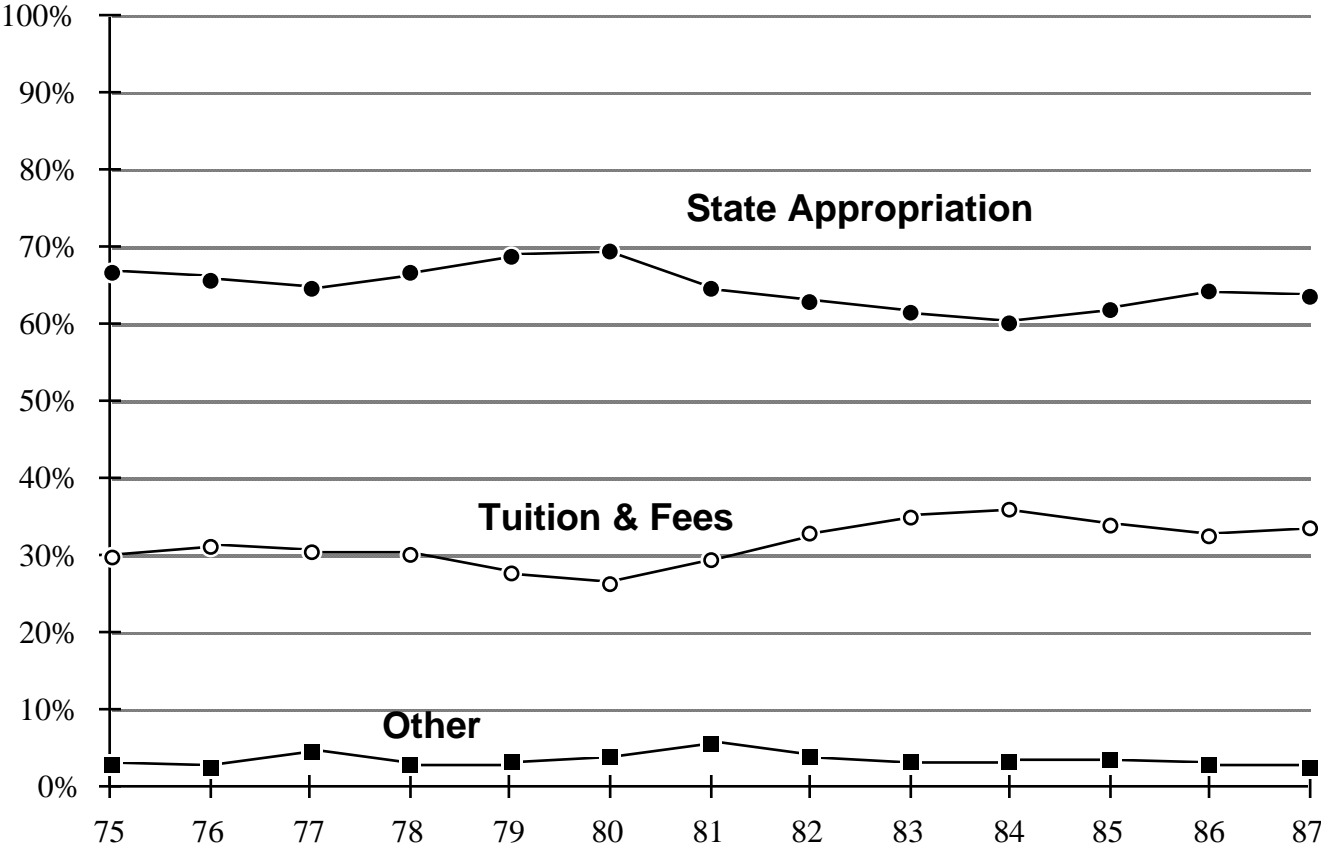


# Changing Mix of General Fund Revenue FY75 - FY87 Central Michigan University

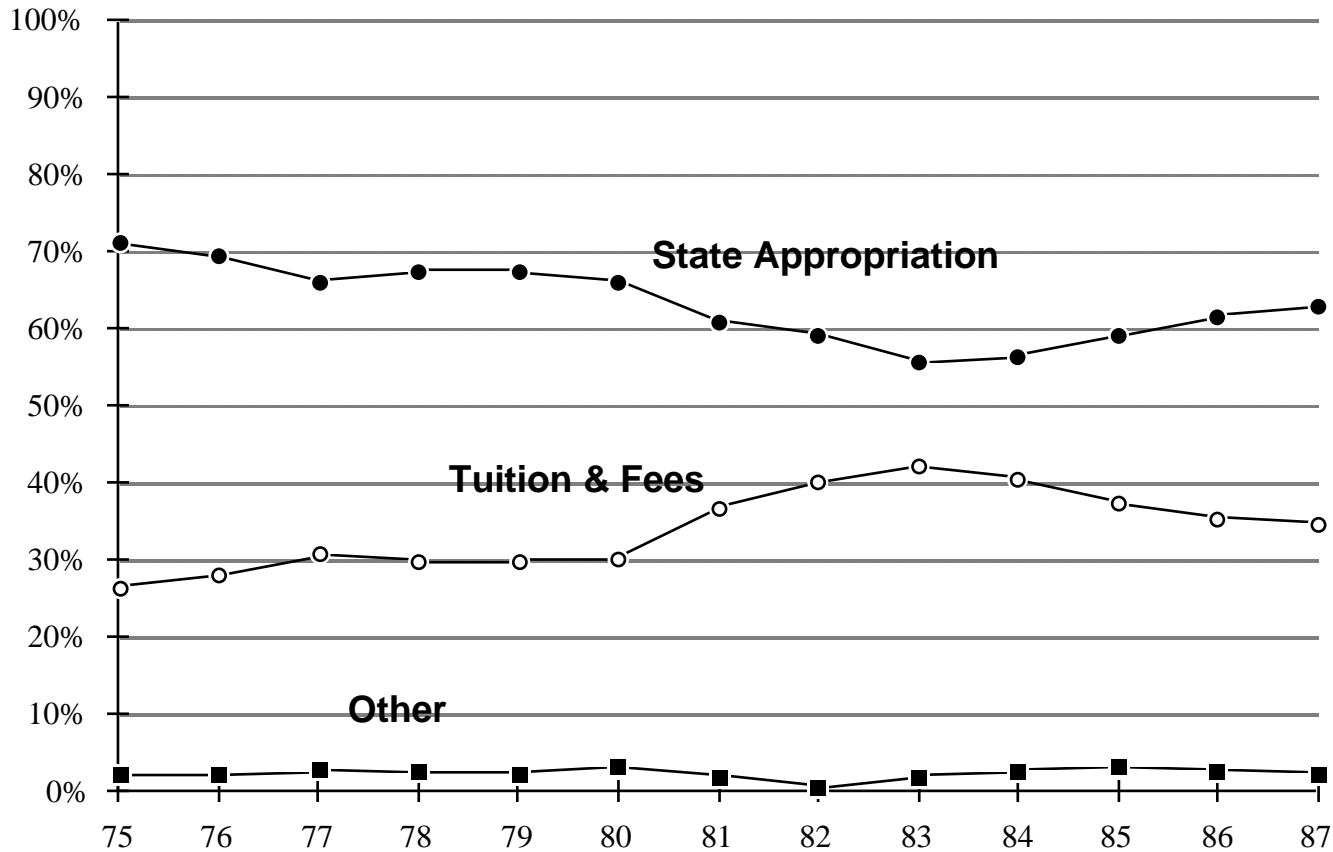




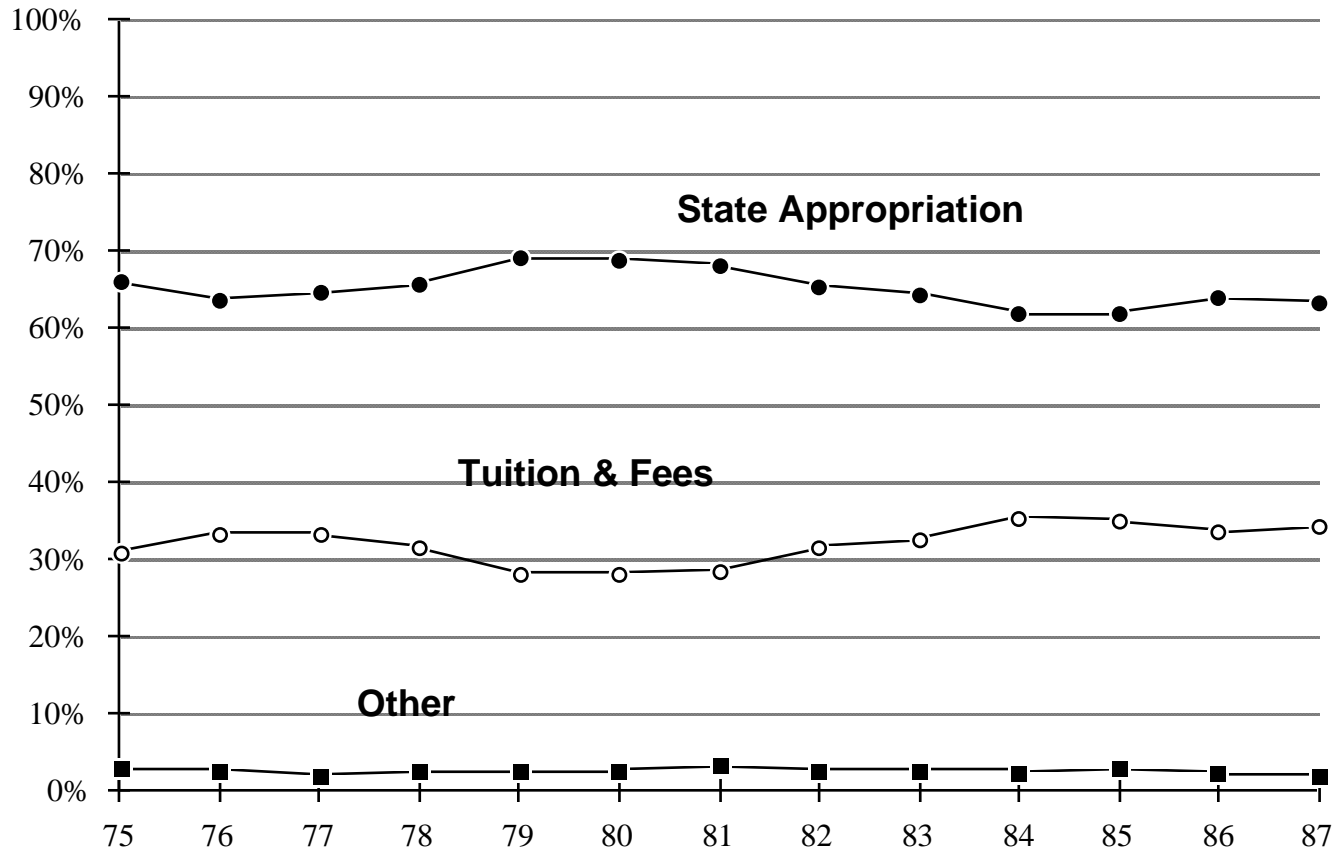
# Changing Mix of General Fund Revenue FY75 - FY87 Eastern Michigan University



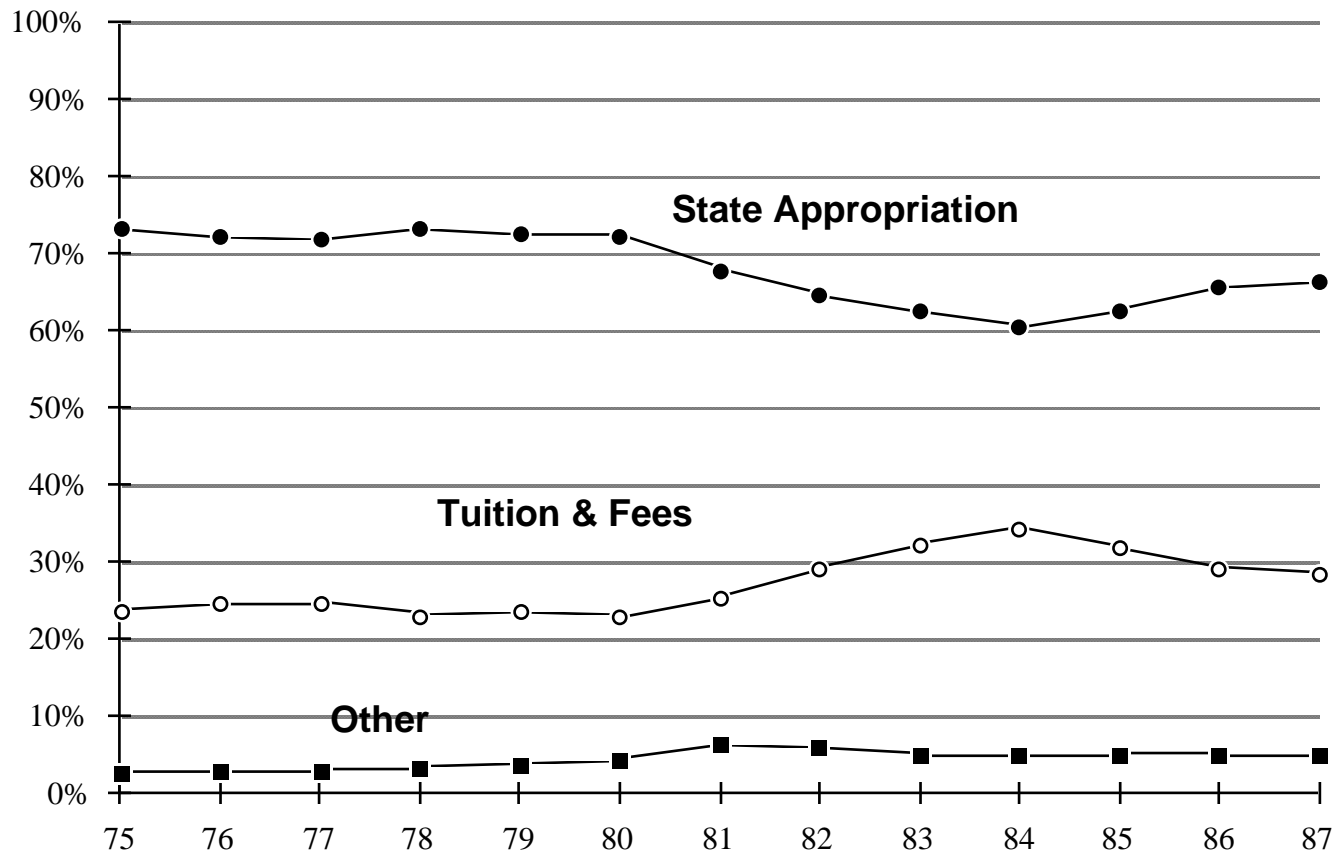
# Changing Mix of General Fund Revenue FY75 - FY87 Ferris State University



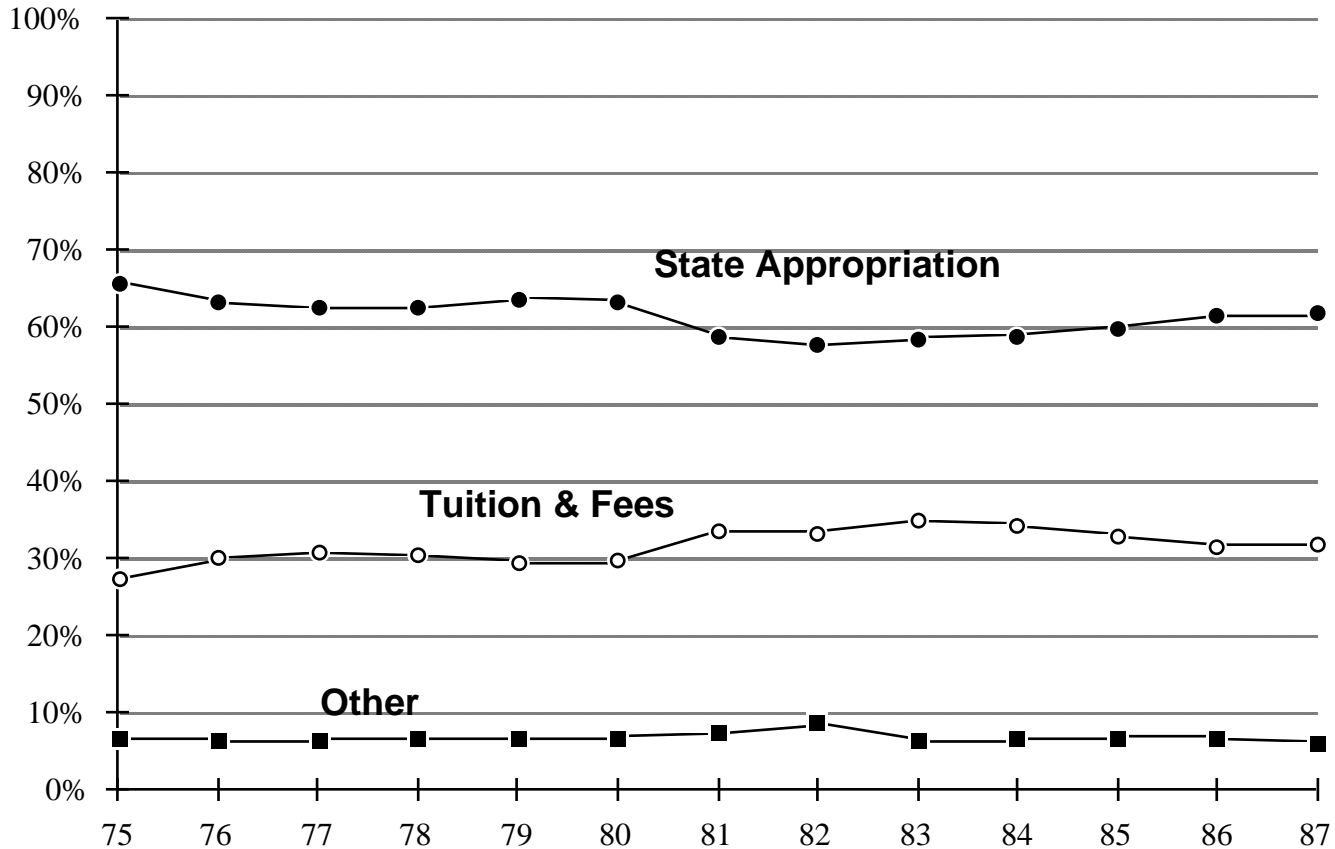
# Changing Mix of General Fund Revenue FY75 - FY87 Grand Valley State University



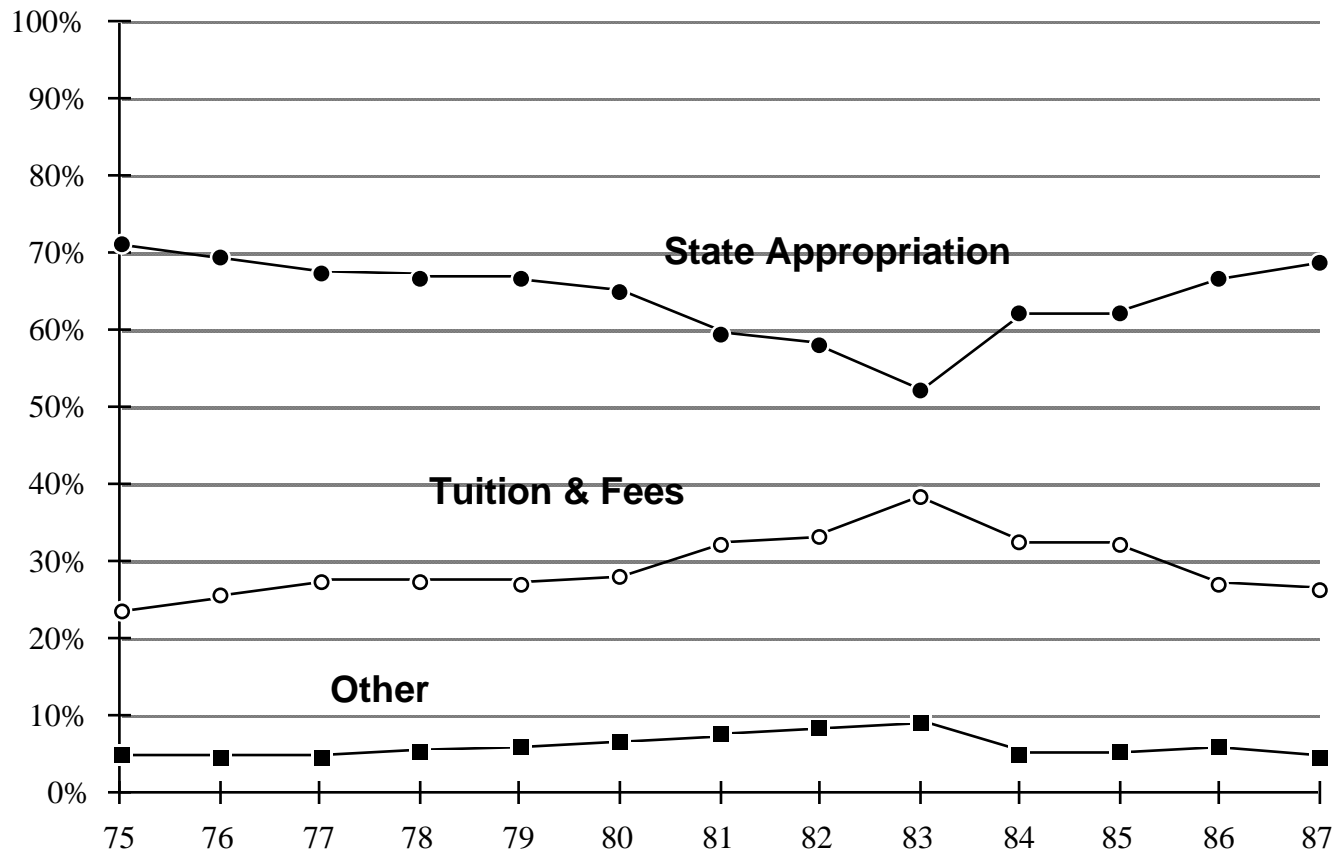
# Changing Mix of General Fund Revenue FY75 - FY87 Lake Superior State University



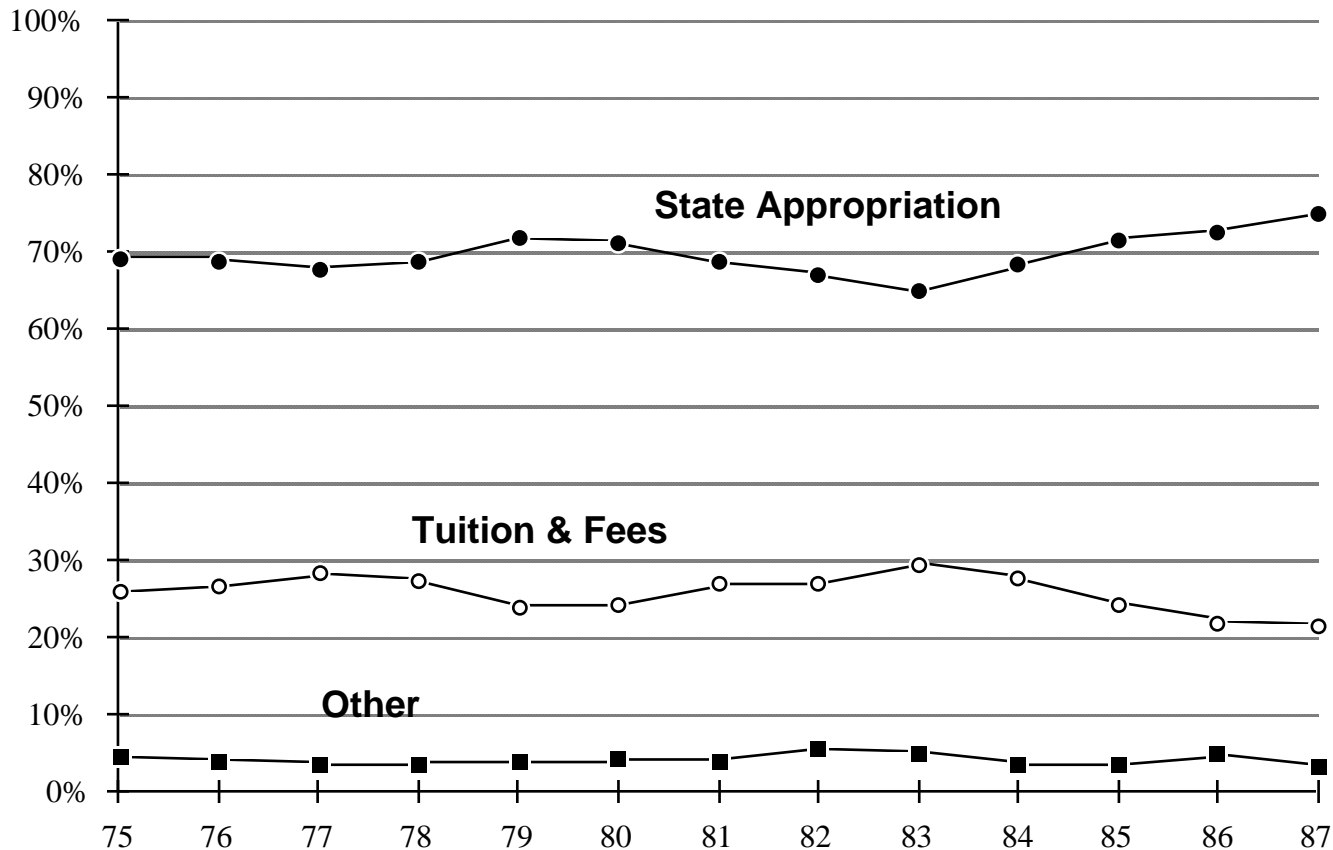
# Changing Mix of General Fund Revenue FY75 - FY87 Michigan State University



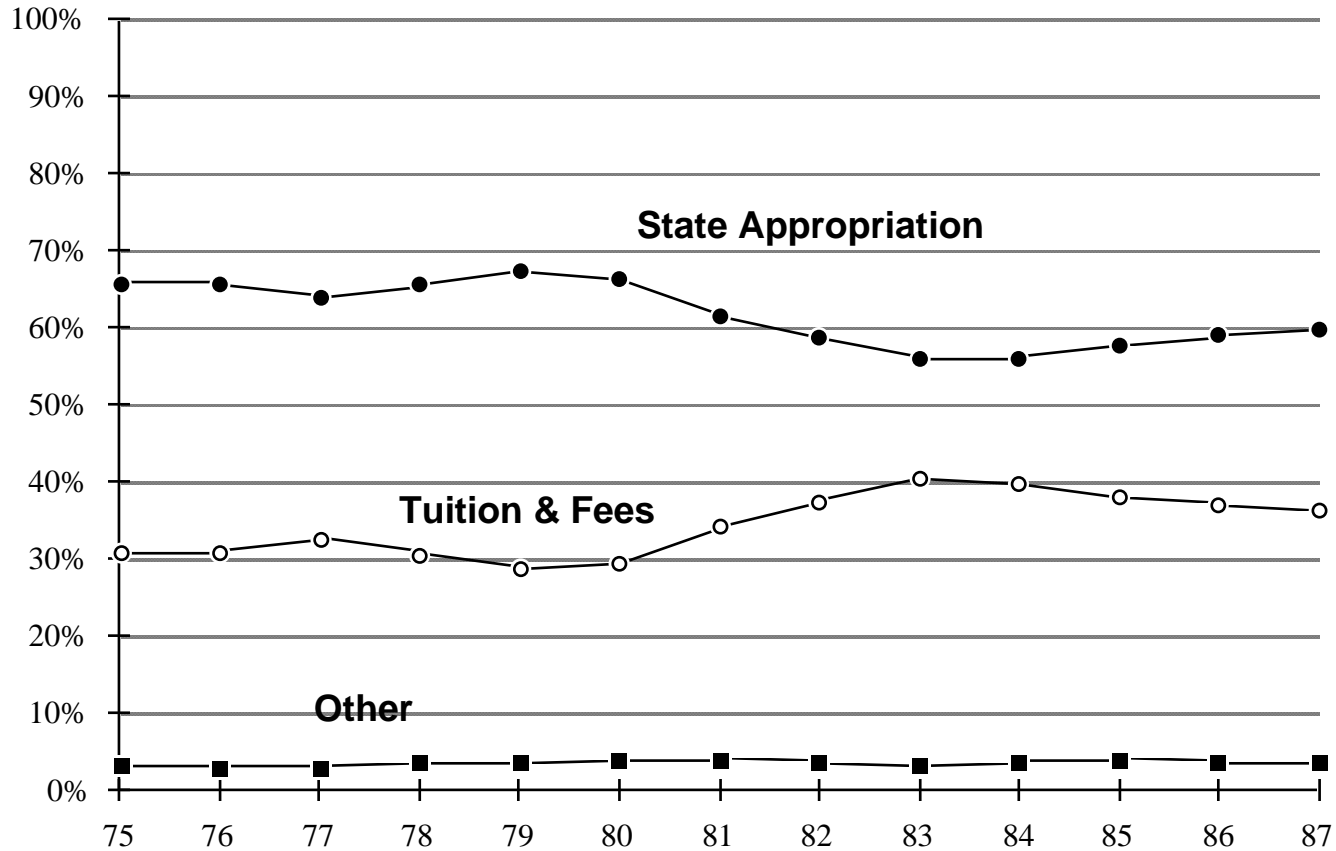
# Changing Mix of General Fund Revenue FY75 - FY87 Michigan Technological University



# Changing Mix of General Fund Revenue FY75 - FY87 Northern Michigan University

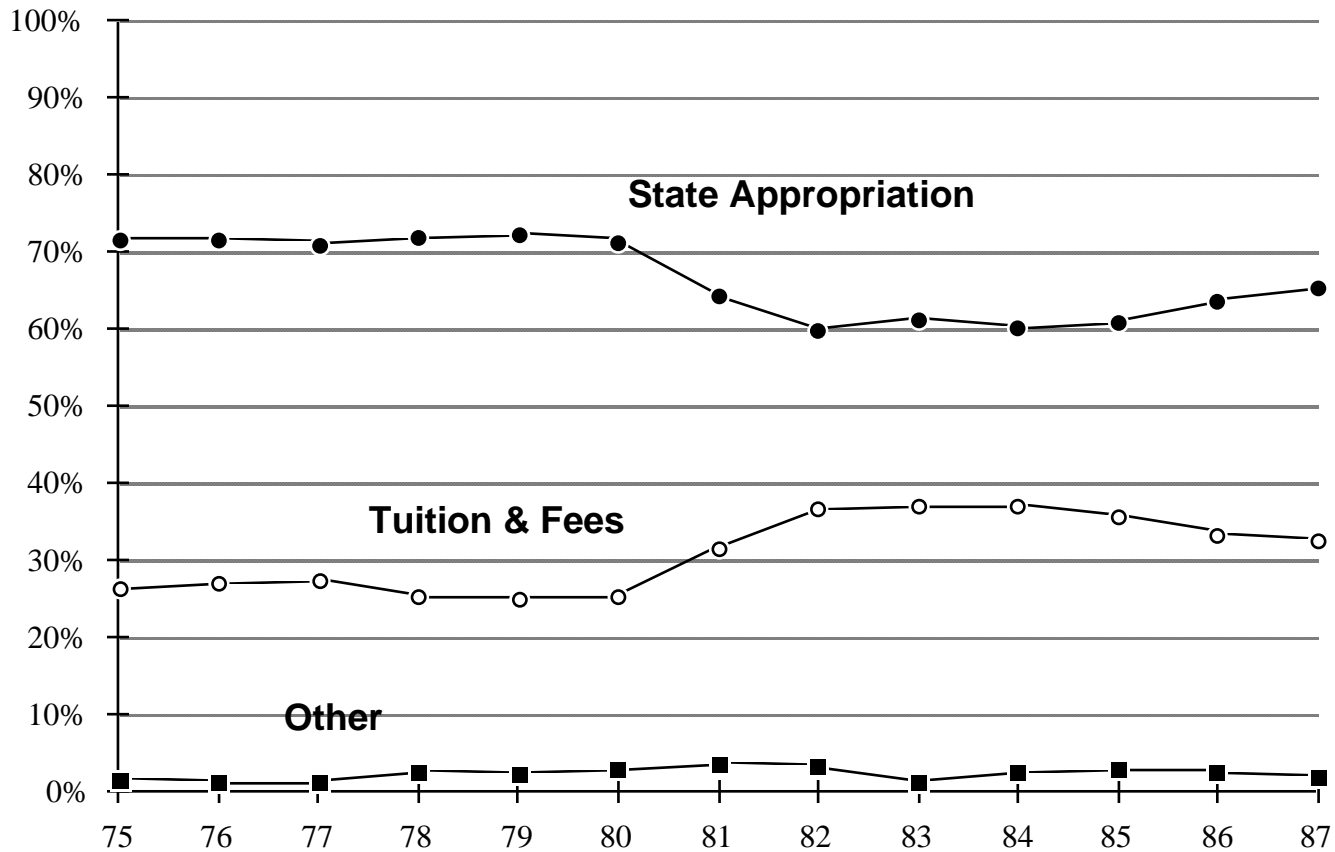


# Changing Mix of General Fund Revenue FY75 - FY87 Oakland University

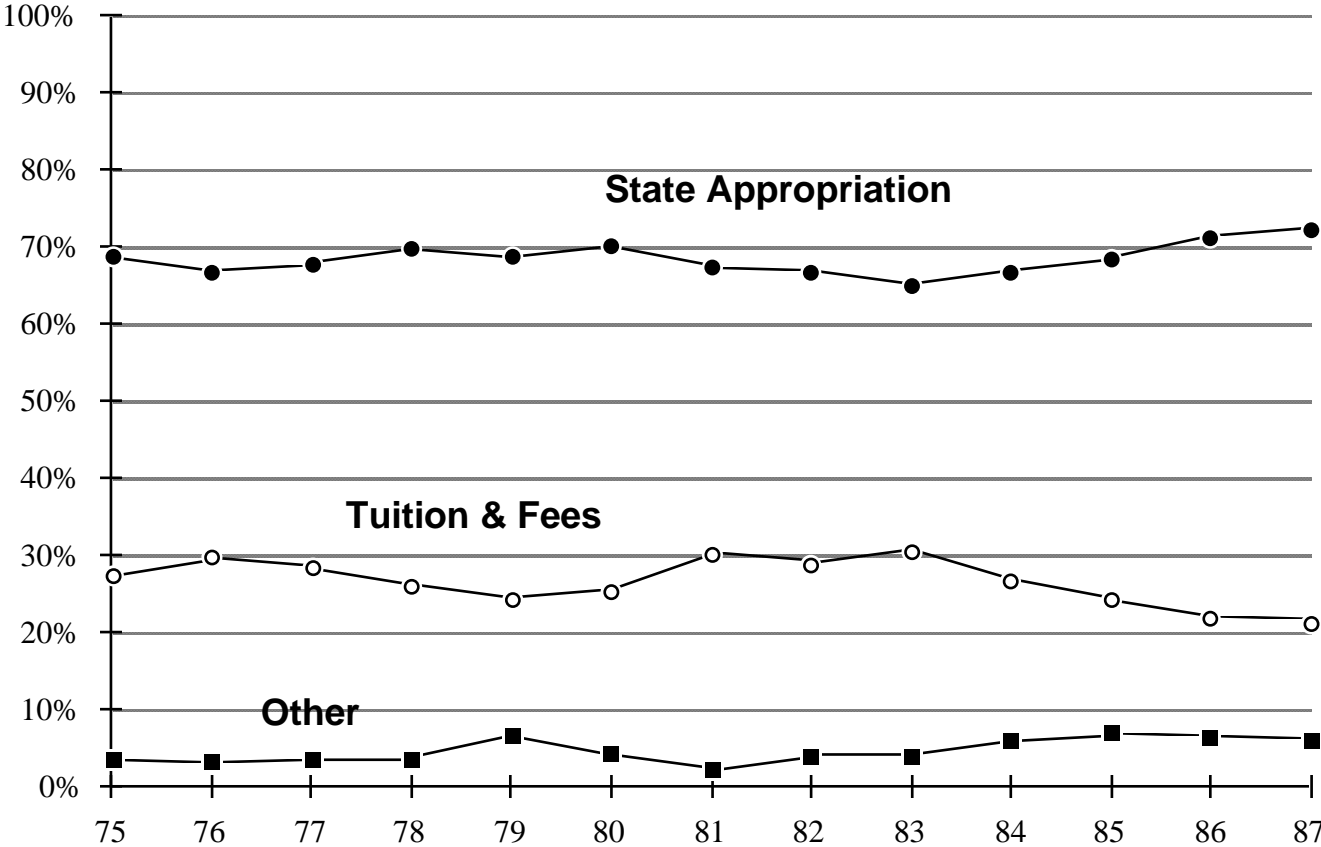




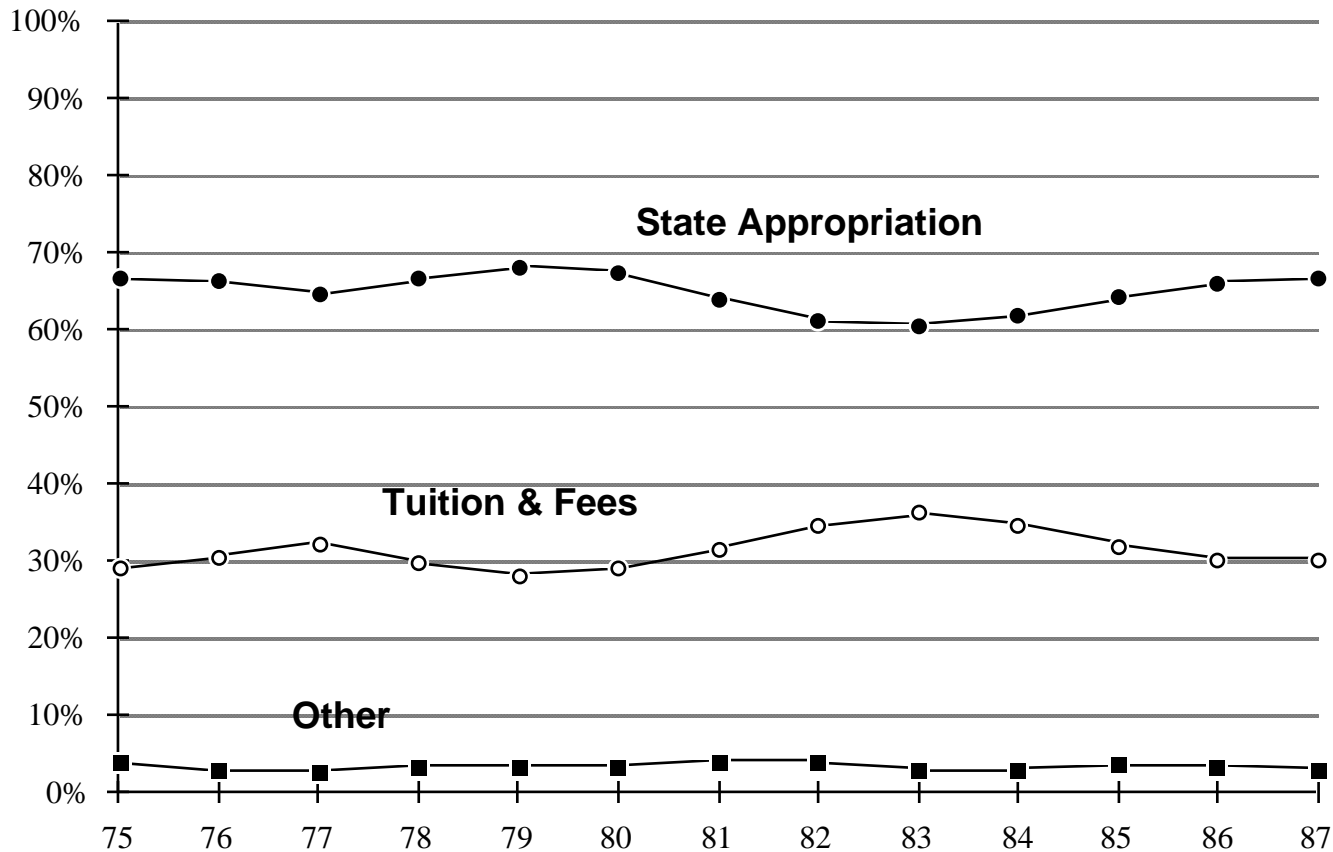
# Changing Mix of General Fund Revenue FY75 - FY87 Saginaw Valley State University



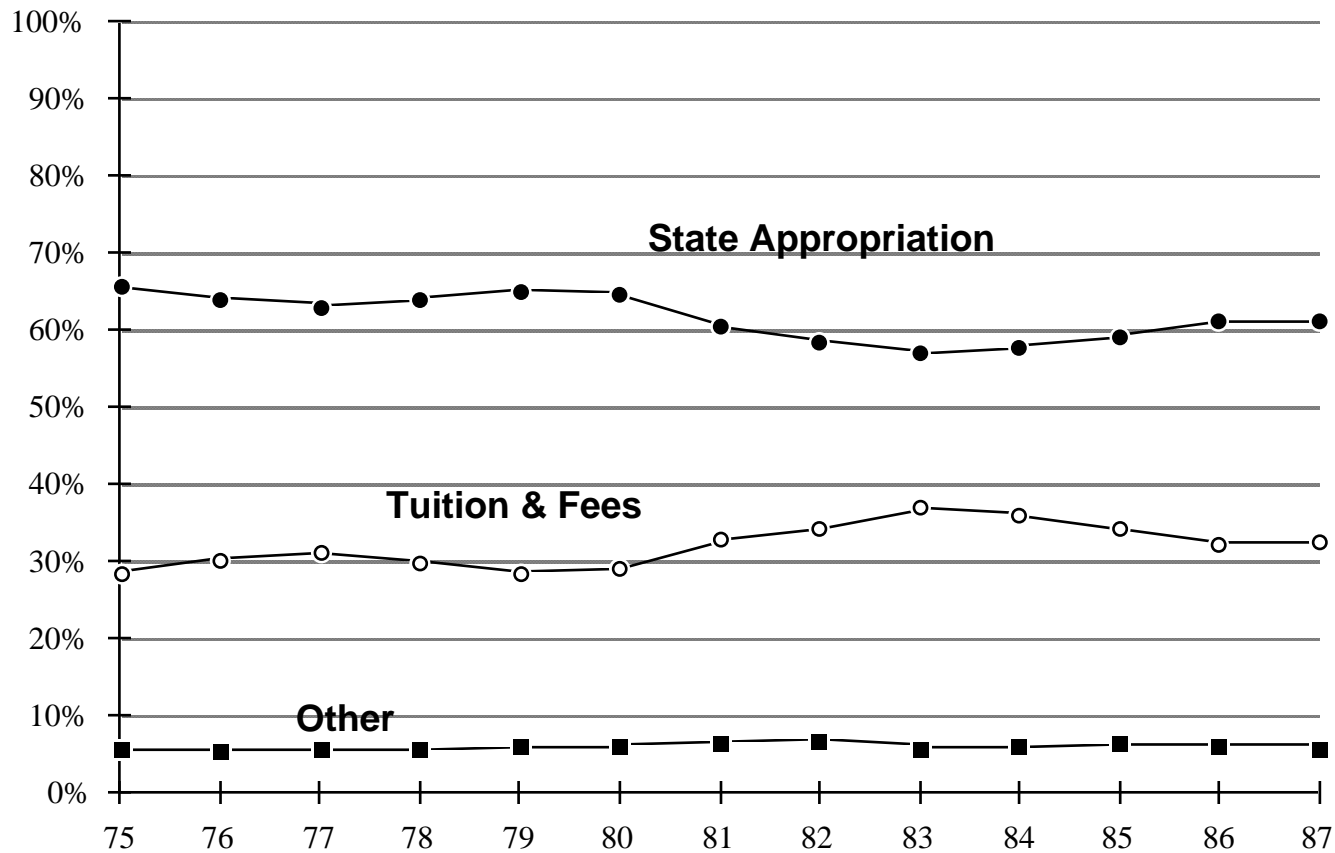
# Changing Mix of General Fund Revenue FY75 - FY87 Wayne State University



# Changing Mix of General Fund Revenue FY75 - FY87 Western Michigan University



# Changing Mix of General Fund Revenue FY75 - FY87 All Michigan Public Universities



# Changing Mix of General Fund Revenue FY75 - FY87 "The Little Twelve"

