

# **Financing the Future**

**A Business Plan for  
the University of Michigan  
for the 1990s and Beyond...**

## **Storm Clouds on the Horizon**

- 1. Over the past two decades, state support of higher education in Michigan has dropped from 6th in the nation to 37th in the nation. Over the past decade, Michigan ranks 45th nationally in the change in its support of higher education.**
- 2. Over the past two decades, the University of Michigan (Ann Arbor) ranks last among public universities in the state both in change in annual appropriation and in state capital outlay funding for academic facilities. It has been received an operating appropriation increase at the system average or above in only one of the last 10 years.**
- 3. The past several years have seen increasing evidence of state government assaults on institutional autonomy (the Governor's efforts to control tuition levels, MET, legislative efforts to set instate/outstate enrollments, admission criteria, curricula, investment policies).**

## **Storm Clouds on the Horizon (cont)**

- 4. Similar intrusions by federal government (administration, Congress, the courts) across a broad range of issues.**
  
- 5. The erosion in public confidence in higher education stimulated by issues such as the rising costs of tuition, scandals in intercollegiate athletics, perception of academic misconduct, a perceived imbalance between research and teaching (Profscam), and a string of "isms" including elitism, racism, sexism, radicalism, conservatism,...**
  
- 6. The increasing "what have you done for me lately" attitude that characterizes many of higher education's diverse constituencies.**
  
- 7. An apparent deterioration in the public will to invest in education at all levels.**

# The Costs of Excellence

- **The costs of excellence are increasing faster than the resources available to most institutions.**
- **Most are faced with making the transition from three decades of growth to the no-growth era of the 1980s and beyond.**
- **More and more institutions are competing for fixed or declining pool of funds, students, and faculty candidates.**
- **There will likely be a shakeout in which those institutions which have already achieved a critical mass of excellence--and have the determination and capacity to sustain it--will draw the best from the available resources and accelerate away from the pack, leaving the rest to compete for a declining resource base.**

## Some Theorems Concerning the Costs of Higher Education

***HTS Theorem #1:*** There has never been enough money to satisfy the legitimate aspirations of a truly enterprising faculty or administration.

***HTS Theorem #2:*** The cost of quality in teaching and excellence will rise faster than the total resource base of most institutions.

***DEVH Theorem:*** Over a sufficiently long time, no resource constraints are rigid. All can be managed or changed.

**Principal force driving up costs  
in higher education:**

## ***Competition***

**...for the best faculty**

**...for the best students**

**...for the best programs**

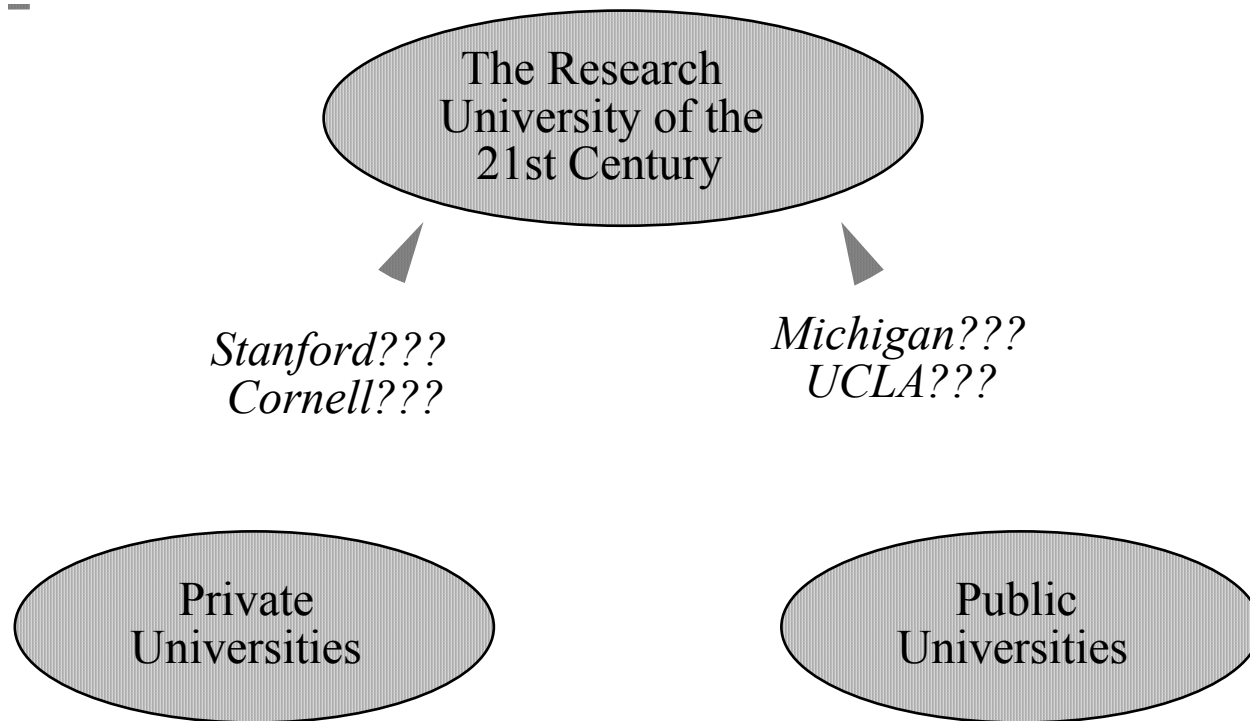
**...for private resources**

**...for public resources**

***To be #1...***

## Observation

Since the top institutions will compete in the same marketplace--for the best students, for the best faculty, for R&D funding from Washington, from grants from industry and foundations--they will, of necessity, become increasingly similar. That is, the differences between the best public and private research universities will tend to vanish over the next two decades.



# Who is our competition?

## 1. The Leading Public Institutions?

UC-Berkeley, UCLA, UCSF, UCSD???

Big Ten (Illinois, Wisconsin, Indiana,...)

Sunbelt: UNC, UVa, Texas,

## 2. The Leading Private Institutions?

Leaders: Harvard, Stanford

Smaller "Ivys": Yale, Princeton, Columbia, Chicago, Duke

Comprehensive: Cornell, Penn, Northwestern,...

Special Focus: MIT, Caltech



## Financial Resources per Student†

1. Princeton
2. Harvard
3. Caltech
- .....
10. UCLA
11. UC Berkeley
- .....
14. U North Carolina
- .....
20. Duke
- .....
30. Michigan

†US News & World Report

## How do we compare in resources?

**A crude measure: Total "academic" expenditures per FYES student**

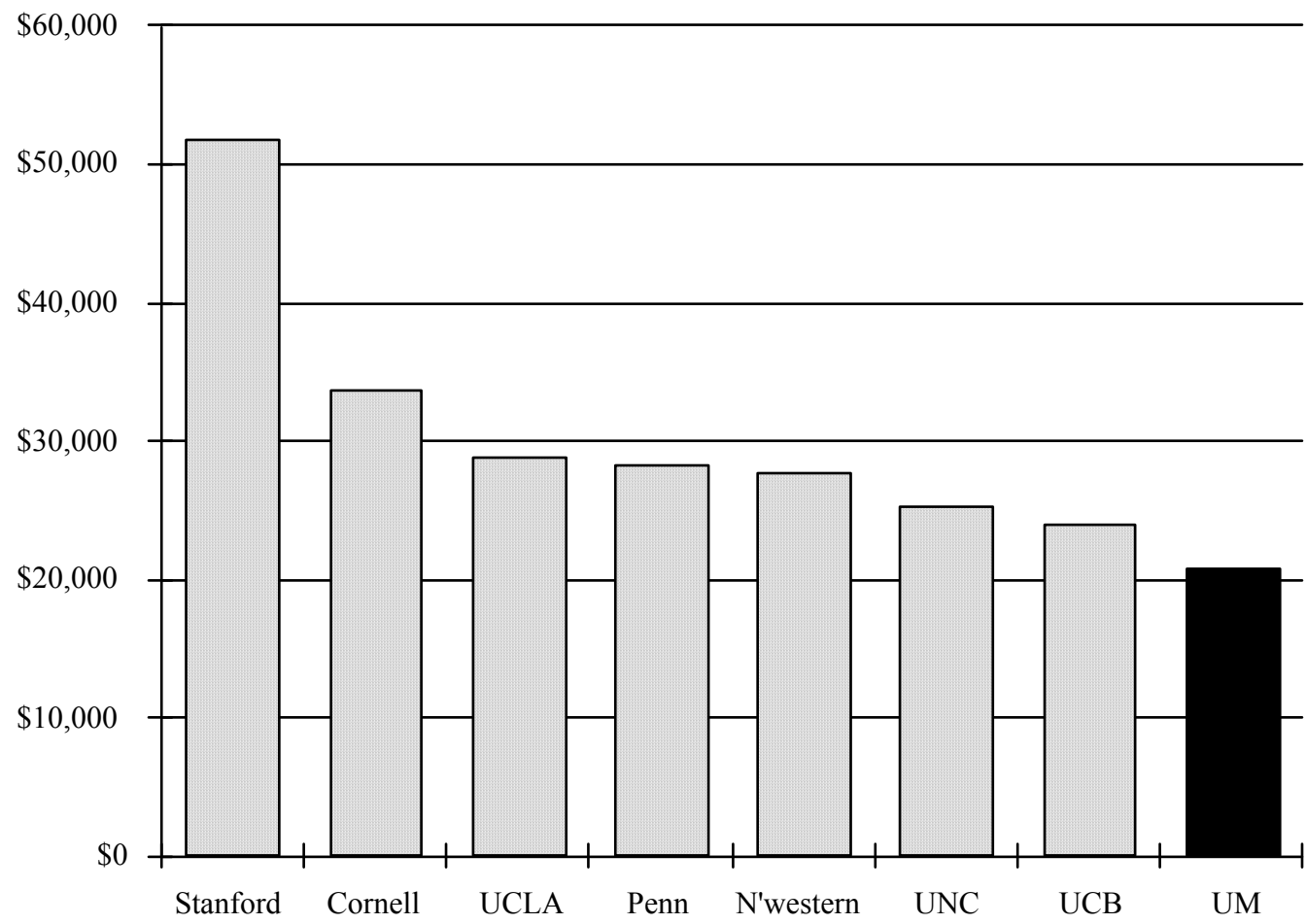
**Total academic expenditures = General Fund  
+ Designated Fund  
+ Expendable Restricted Fund**

**For example, for UMAA in FY89-90, this amounts to**

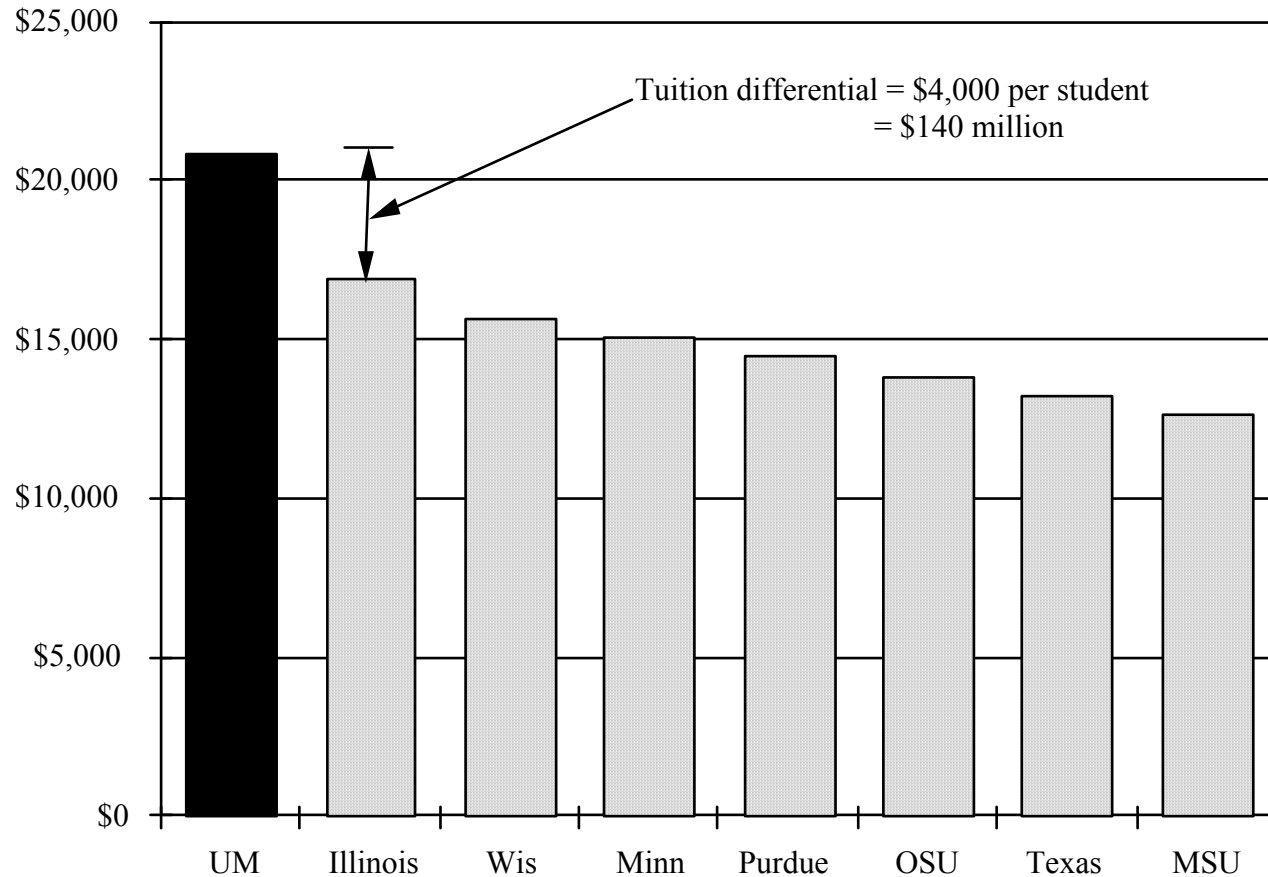
**\$533 M + \$54 M + \$302 M = \$889 M / 36,000**

**\$24,000 per student**

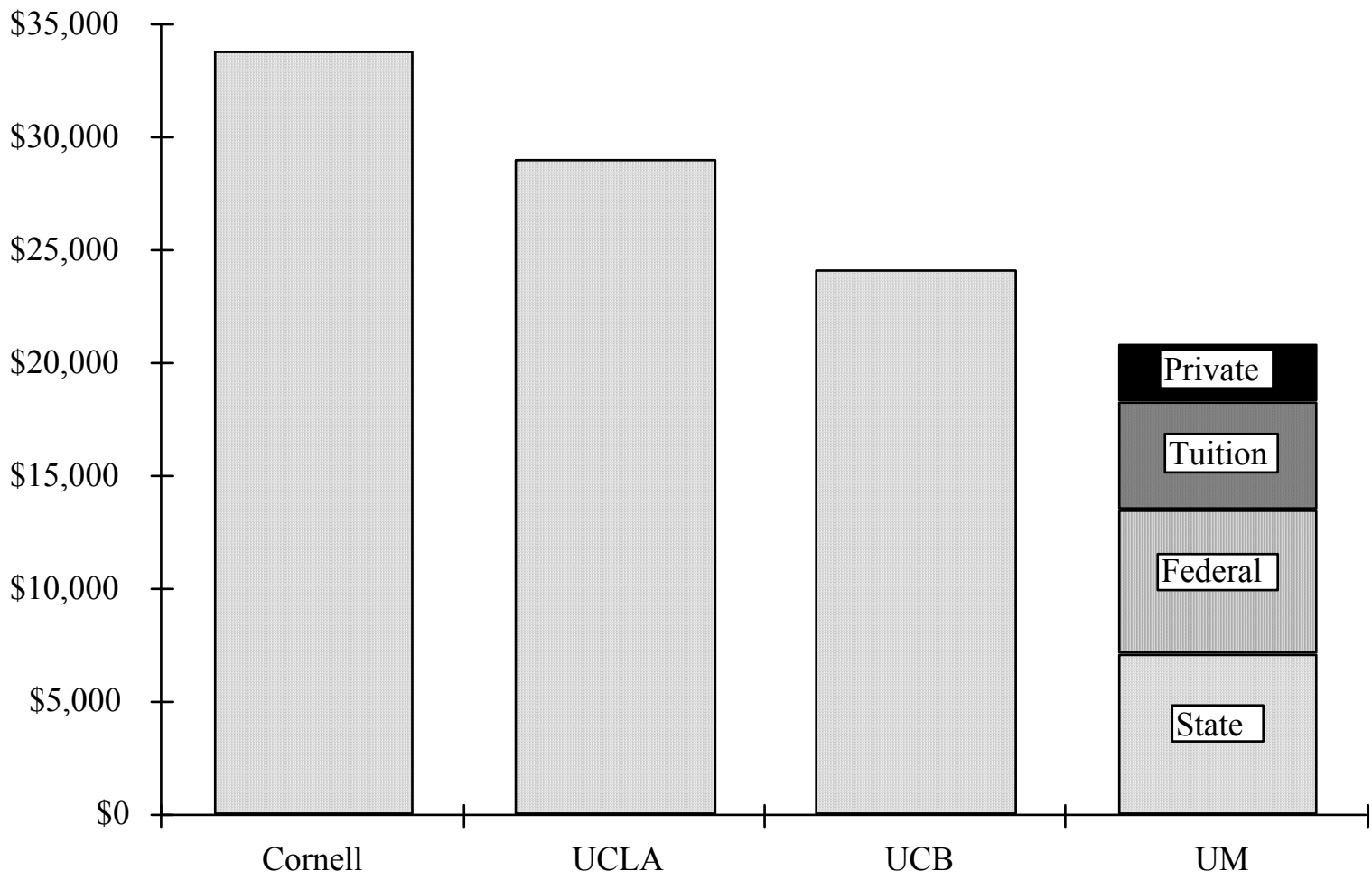
# Resources per Student (FY90)



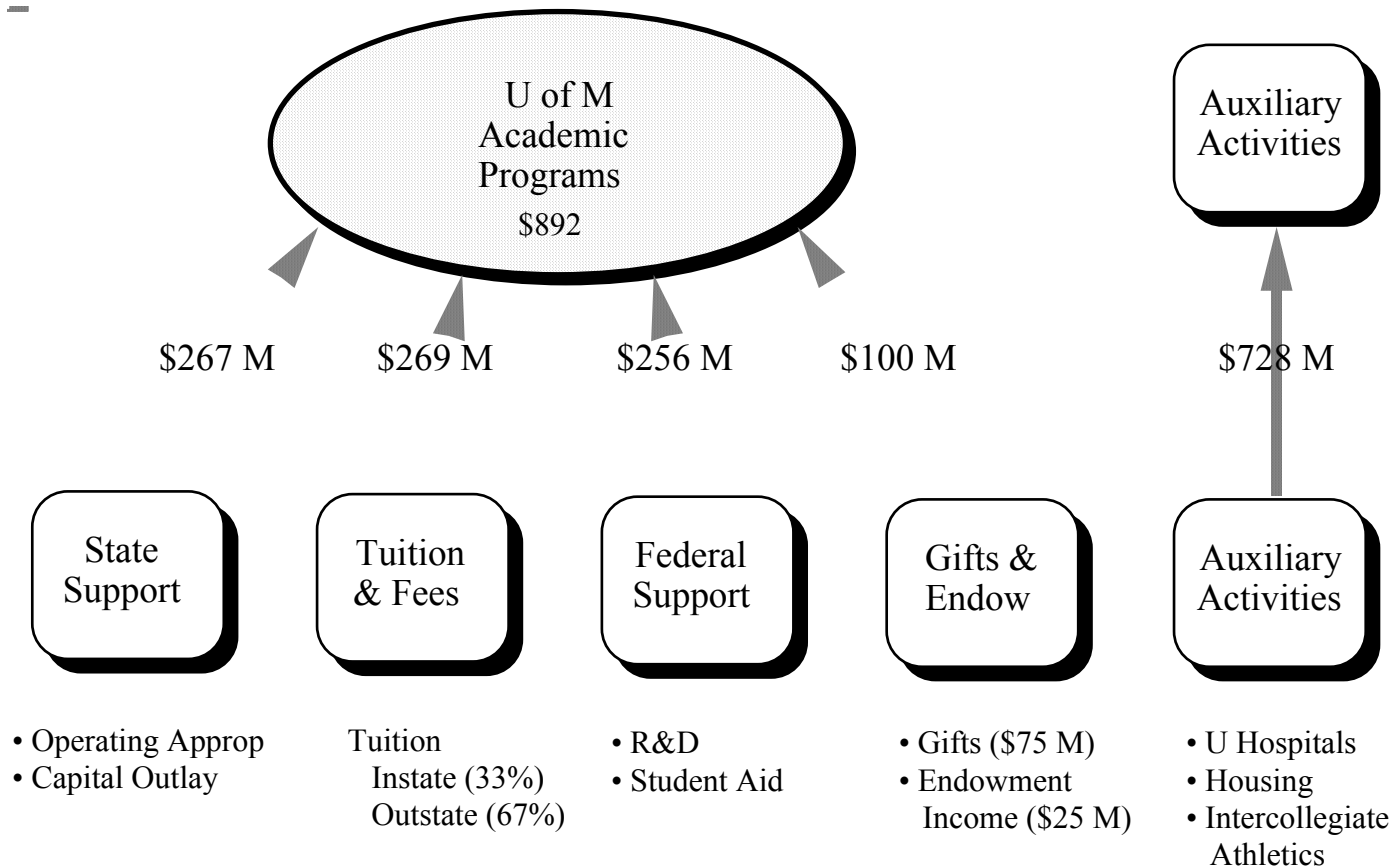
## Resources per Student (FY90)



# The Situation at Present



# UM Revenue Portfolio (FY90)



# Resource Options

## Revenues:

- **State Support**
- **Federal Support**
- **Tuition and Fees**
- **Gifts and Endowment Income**
- **Auxiliary Activities**

## Expenditures:

- **Enhanced Productivity and Efficiency**
- **Downsizing ("Smaller But Better") Strategies**
- **Growth Strategies (nontraditional education)**

## Hybrid Strategies

- **Mixed Public/Private Strategies**
- **National University Strategies**
- **"Unbundling" Strategies**

## Michigan's Rankings Among the States on Various Measures of Funding of Higher Education

	<u>National Ranking</u>
Tax Dollars Spent per FTE Student	33rd
Higher Ed Appropriations per Capita	24th
Appropriations as % of Tax Revenue	35th
Appropriations as % of Personal Income	37th
Annual Increase in State Appropriations	35th
Two-Year Increase in State Appropriations	42nd
Ten-Year Increase in State Appropriations	45th

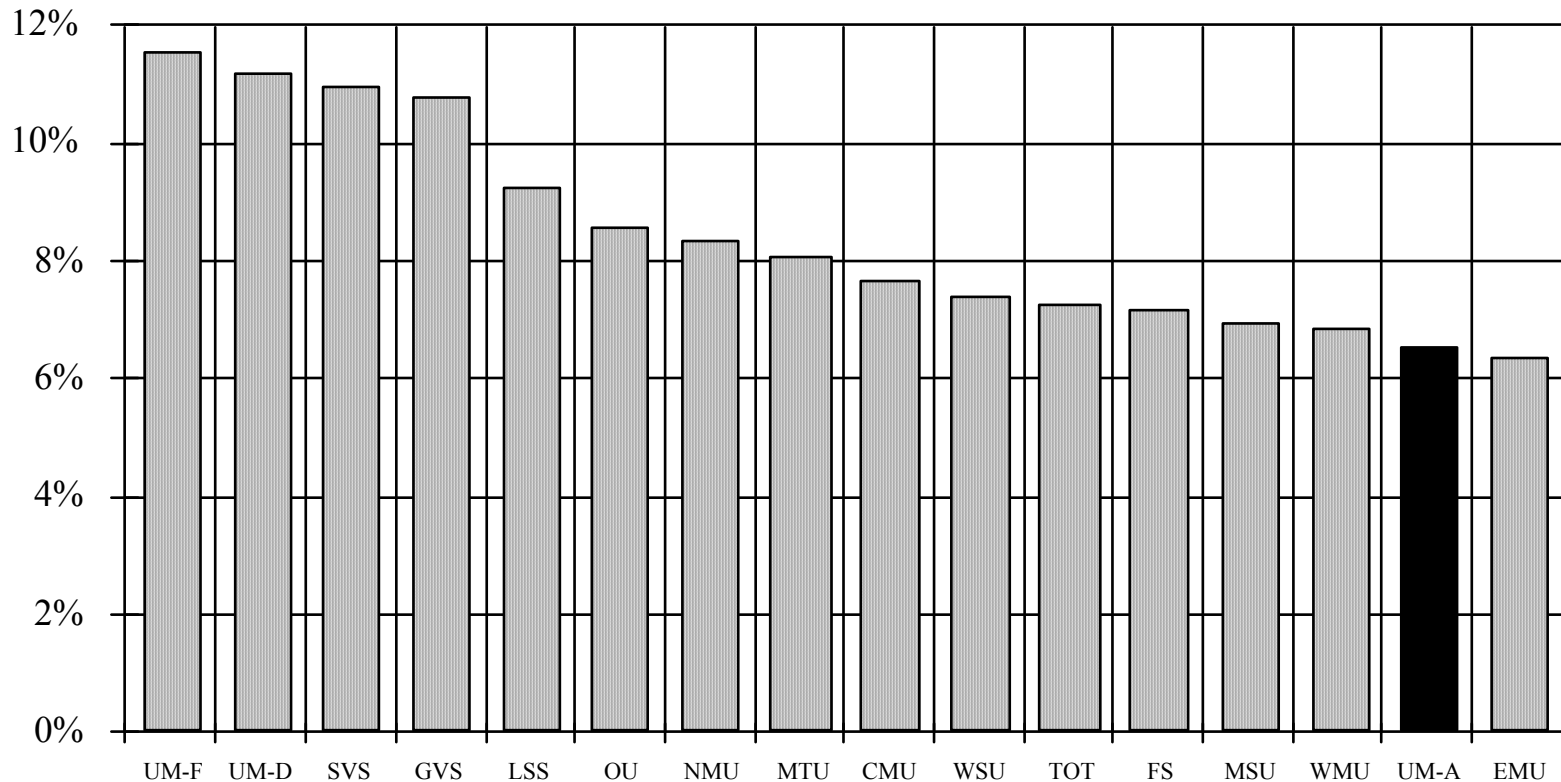


## Ranking of UMAA Annual % Increase in State Appropriation Relative to 15 Michigan Public Universities

	<u>Ranking</u>
FY81	10th
FY82	9th
FY83	14th
FY84	4th
FY85	14th
FY86	4th*
FY87	15th
FY88	15th
FY89	15th
FY90	15th

\* 15th w/o REF

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



# State Initiatives

## Immediate (this fall)

- **Expand Lansing team (4+ FTEs)**
- **Build coalitions with other public institutions**
- **Identify and cultivate "champions" in Legislature**
- **Attempt to strengthen relationship with Governor**

## Near Term (this year)

- **Media Relations effort**
- **Community Relations effort**
- **Alumni network (Michigan Advancement Council)**
- **M-PAC**
- **Development of Private Leadership "Roundtable"**

## **What can we expect from the State during the 1990s?**

### **Operating Appropriations?**

- **Major reallocation within existing revenue base unlikely (e.g. corrections, social services, health care -- perhaps even K-12 will come first)**
- **Increase in income tax unlikely**
- **Continuation of trend toward increasing support of private colleges and pet bureaucracies**

**Conclusion: The best we can expect is for state appropriations to track the inflation rate (and even this may be too optimistic).**

### **Capital outlay?**

- **Not until corrections is brought under control.**
- **Even then, UMAA is unlikely to get anywhere near what its public peers get (\$25-\$50 M/year)**

### **Attacks on Institutional Autonomy?**

- **Likely to continue with present administration.**
- **Possibility of "smoke and mirrors" approach.**

# Federal Initiatives

## Immediate (this fall)

- **Establish permanent Washington office**
- **Build relationships with Michigan Congressional Delegation**
- **Coordinate Washington team (3+ FTEs)**

## Near Term (this year)

- **Alumni Networking**
- **National Educational Organizations**
- **"Deep" games???**

# What can we expect from the Feds during the 1990s?

## Federal R&D Support

- Deficit reduction measures will constrain
- UM will continue to hold its own -- as long as we have the capacity to attract outstanding faculty!
- Increasing pressure on indirect cost recovery rates

## Federal Financial Aid

- Clearly not a priority (50% decline in 1980s)
- Threats of mandatory service requirements

## Other Federal Tendencies

- Increasing regulation (health, safety, conflict of interest, academic integrity, foreign involvement)
- Weakening of Michigan (and Midwest) congressional base with reapportionment

## Potential of Additional Tuition Revenue

Current private tuition levels:	\$15,000
Current average UM tuition:	<u>\$5,000</u>
Difference	\$10,000

Maximum additional tuition capacity (gross):

$$35,000 \text{ students} \times \$10,000 = \$350 \text{ million}$$

Discounting for financial aid (- 33%):

$$(2/3) \times \$350 \text{ million} = \$230 \text{ million}$$

Hence, net additional tuition capacity is roughly equal to present state appropriation:

$$\text{Max Additional Tuition} = \$230 \text{ M} = \text{State Aid}$$

## Tuition Potential: Prices and Costs

### Tuition Model #1: Market-Driven

Set outstate tuition at market:	\$12,000
Subtract out state subsidy per student	<u>- 7,000</u>
Instate tuition levels	\$5,000

### Tuition Model #2: Cost-Driven

Actual cost: (GF+DF+ERF)/35,000	\$23,000
Subtract out federal and private support	<u>- 11,000</u>
Outstate tuition levels	\$12,000
Subtract out state subsidy per student	<u>- 7,000</u>
Instate tuition levels	\$5,000



# Tuition vs. National Rankings

Tuition and Fees

\$15,000

\$10,000

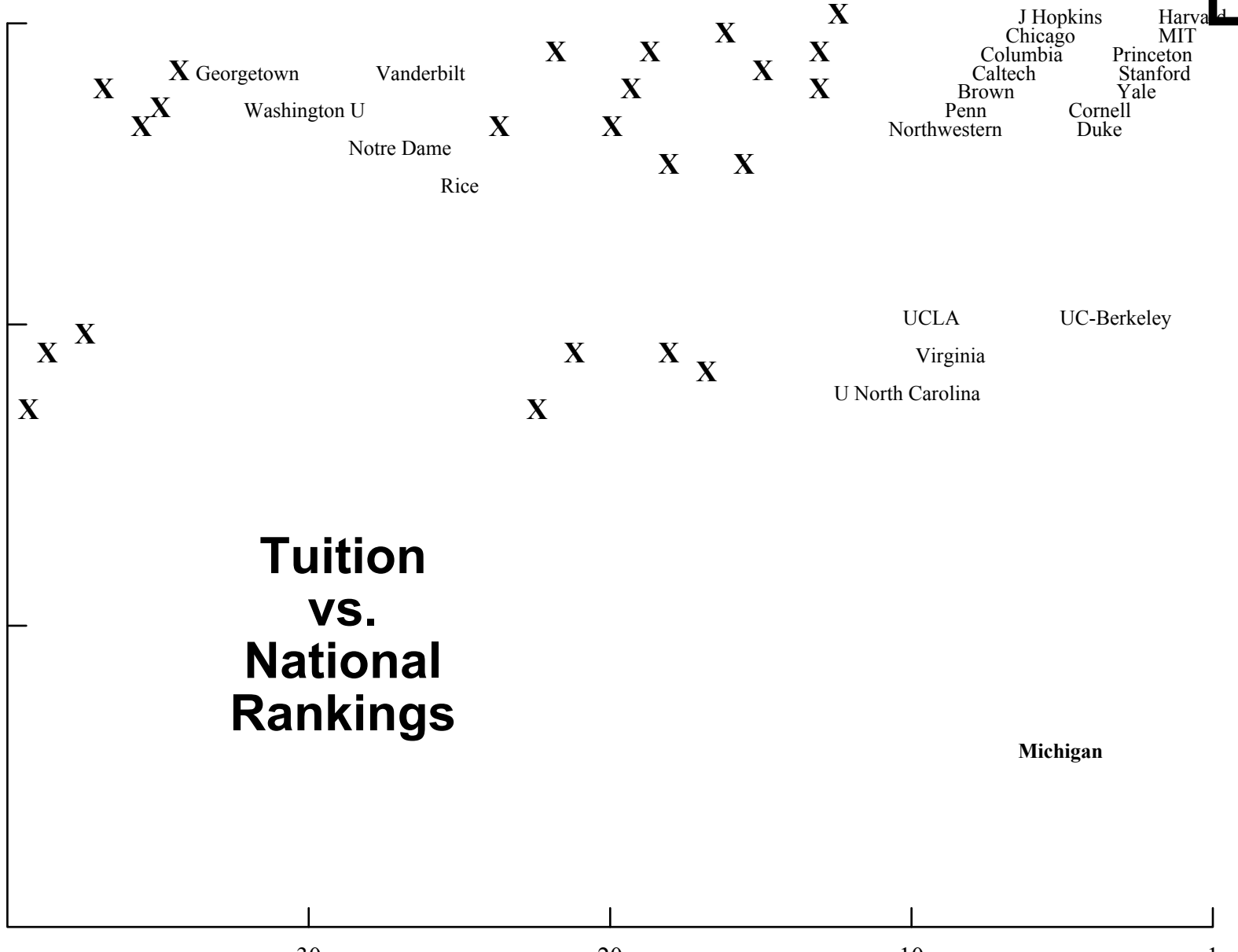
\$5,000

30

20

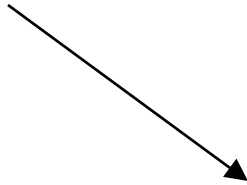
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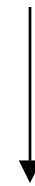
# Political Constraints

The MET Gorilla



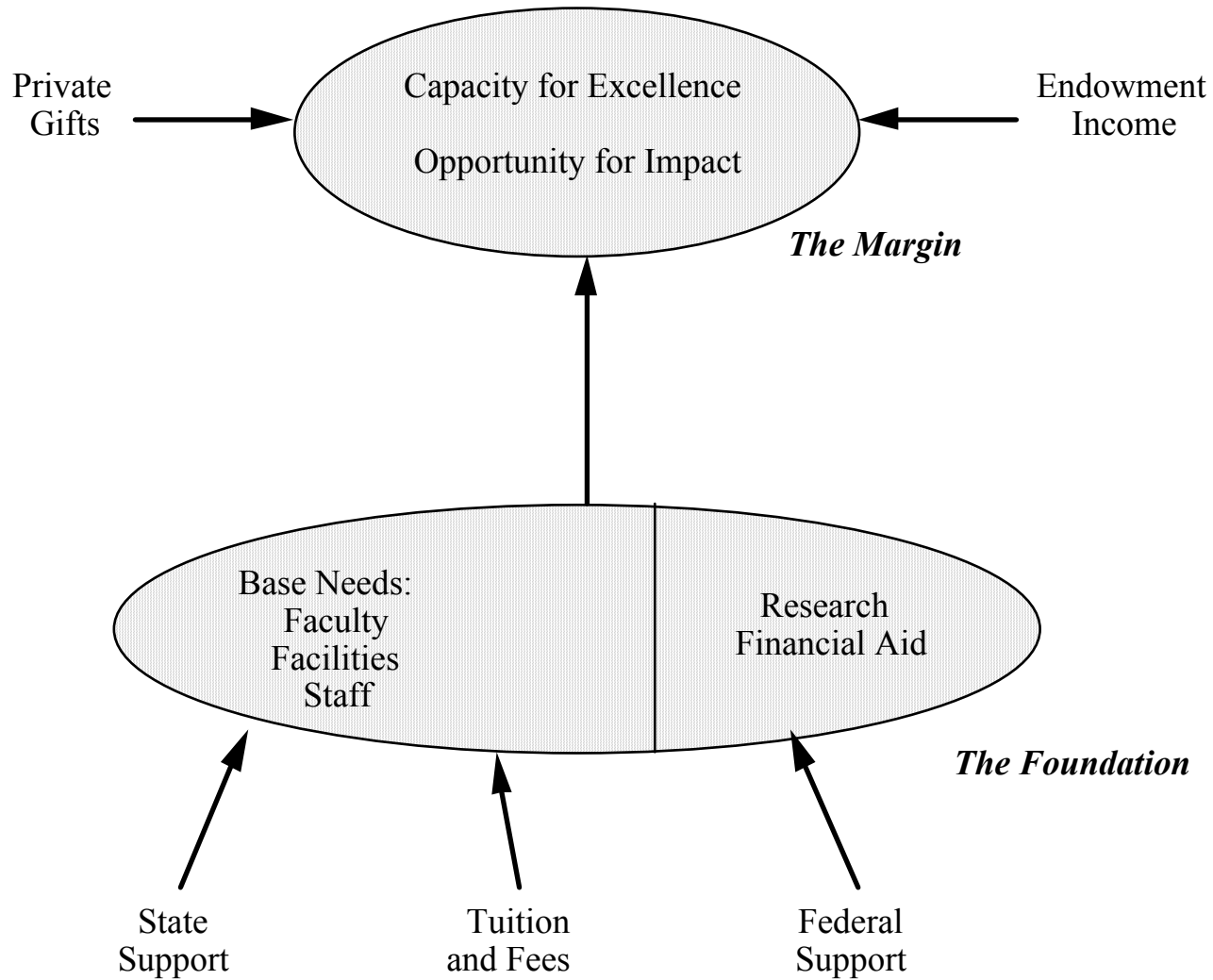
Instate  
Tuition

\$5,000

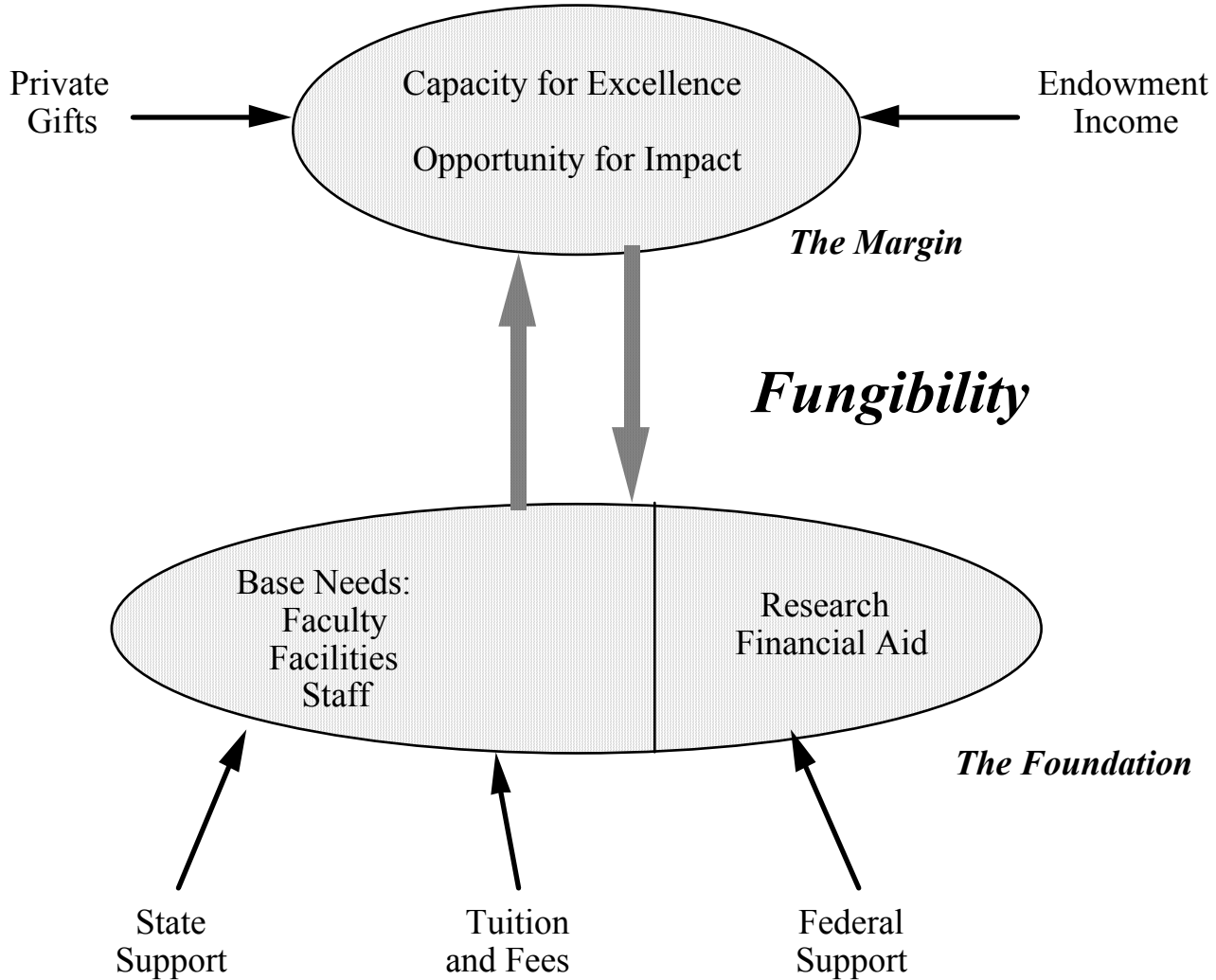


\$3,200

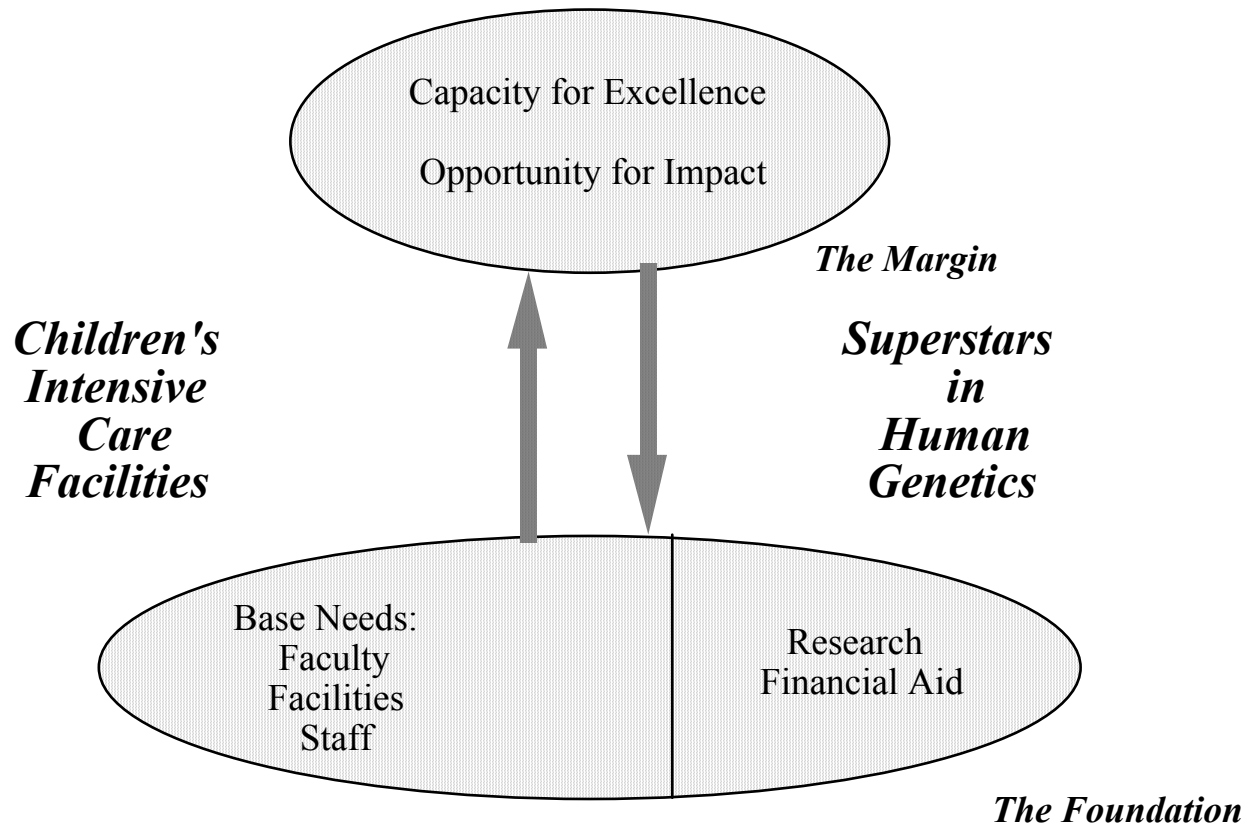
# The Importance of Private Support



# Flexibility and Fungibility



# Flexibility and Fungibility: An Example



# The Possibility of Strong Private Support

## Present Situation:

**Gifts: \$72 M/y**

**Shows good growth...but still far from where it should be (and ranks UM only 24th)**

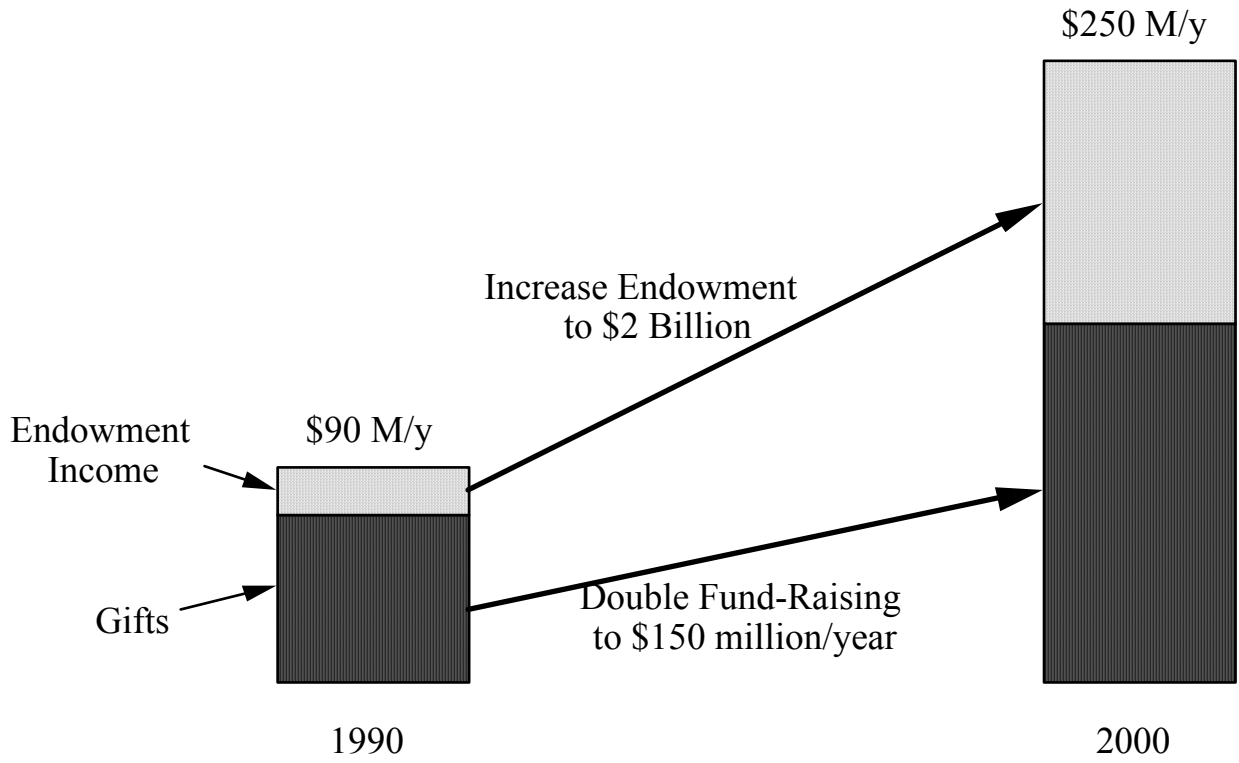
**Endowment: \$450 M**

**Very low for an institution of this size and quality.  
UM ranks 29th among all universities (and  
5th among public universities).**

## Challenge:

**It seems clear that the UM must use the 1990s to make a major effort to substantially increase both private giving and endowment.**

# A Fund-Raising Goal for the 21st Century



## **Auxiliary Activities**

### **University Hospitals**

- **Possibility of more resource flow from Hospitals to health profession academic programs (Medicine, Nursing, Pharmacy, Public Health, Dentistry)**
- **But long term prognosis for "profits" is guarded**

### **Intercollegiate Athletics**

- **Without major expenditure reduction, revenues cannot cover even the present level of activities**
- **Introduction of Tier II sports may require student fees**

### **Housing**

- **Some possibility of resource flow into academic programming in resident halls (through fees)**

**Other Ideas: spinoffs, commercial ventures**



## **Some Facts of Life**

- 1. The University is presently underfunded -- with respect to our present size, breadth, and quality -- by \$200 M to \$300 M/y (as determined by peer comparisons).**
- 2. Further, the University is entering one of the most intensely competitive periods in its history (for faculty, students, funds).**
- 3. It is unlikely that the State of Michigan will have the capacity -- or the will -- in the short term to increase our state appropriations beyond their present levels (in real terms).**
- 4. Nonresident tuition levels are now constrained by and will track the private marketplace.**
- 5. Resident tuition levels are seriously underpriced -- with respect to actual costs, state "subsidy", and the availability of financial aid. Yet they are also constrained by political factors.**
- 6. The present "corporate culture" of the University will make significant cost reductions, productivity increases, and even control of growth difficult.**

# The Costs of Education -- The Real Issues

**Question 1: How good do we want Michigan to be?**

**Higher education is one of the most competitive industries in America, with over 3,500 institutions competing for students, faculty, funds...not to mention competing with the international marketplace.**

**Hence, if you tell me how good you want us to be, then I can give you a pretty good idea of how much you will have to invest**

**As good as...**

<b>Harvard or Stanford?</b>	<b>\$50,000 per student-year</b>
<b>Berkeley or UCLA?</b>	<b>\$30,000 per student-year</b>
<b>Ohio State or MSU?</b>	<b>\$18,000 per student-year</b>
<b>Mississippi or Montana?</b>	<b>\$10,000 per student-year</b>
<b>Southern North Dakota State at Hoople?...</b>	

## **The Costs of Education -- The Real Issues**

**Question 2: Who is going to pay for this quality?**

**The state taxpayer?**

**The federal taxpayer?**

**Parents?**

**Students? (through loans and work-study)**

**Private philanthropy from  
...alumni, friends, industry, foundations...**

**Unfortunately, there are no other options.**

**Someone has to pay for quality...**