Financial Restructuring

1. *Responsibility center management*
2. *Incentive Compensation*
3. *Market-Driven Pricing*

Responsibility Center Management

- *To allow resource allocation decisions to be driven by the values, core mission, and priorities of the University rather than dictated by external forces.*
- *To provide a framework for such decisions consisting of knowledge of the true resource flows throughout the University.*
- *To allow both academic and administrative units to participate as full partners with the central administration in making these resource allocation decisions.*

RCM Mechanics

- *Units retain the resources they generate.*
- *Units are responsible for the costs incurred by their activities.*
- *Central overhead and funds for unit subvention are covered by a tax on unit expenditures.*
- *The state appropriation is actively management through central decision making ("zero-base budgeting").*

Current Compensation Schemes

- *Almost entirely base adjustments*
- *Determined by research, reputation, and market*
- *Reinforce the status quo*
- *Total unrelated to institutional goals*

An Alternative: Incentive (One-time) Compensation

- *One-time compensation*
- *Determined by institutional objectives, e.g.,*
  - *Teaching excellence*
  - *University service*
  - *Enhanced productivity*
- *Build up over next five years to 15% of total compensation*

Market-Driven Pricing

Key Principles:

1. *Tuition (pricing) determined by:*
    - *competitive marketplace*
    - *quality of educational programs*
    - *value of degree programs to student*
2. *Resident tuition determined by discounting*
    - *need-based financial aid*
    - *state appropriation*

Competitive Marketplace

	95-96 Tuition
Harvard, Yale, Princeton, Stanford,...	*$21,000*
Cornell, Penn, Northwestern, Duke,...	*$20,000*
Kalamazoo, Albion, Hope,...	*$17,000*
UC, UVa, UNC,...	*$13,000*

Note: No Michigan public universities compete with UMAA for students at UG, grad, or professional level!

Who does UMAA compete with?

In terms of program quality?

Harvard, Stanford, UC-Berkeley,...

In terms of value-added by degree?

Cornell, Penn, Duke,...

For UG students?

Cornell, Penn, Duke,...

For grad students?

Harvard, Stanford, UC-Berkeley,...

How do our true costs compare?

For undergraduate education:

Harvard, Yale, Princeton,...	*$50,000/yr*
Cornell, Penn, Duke,...	*$35,000/yr*
UCB, UNC, ...	*$25,000/yr*
UMAA,...	*$20,000/yr*
MSU,	*$15,000/yr*

Market-Determined Pricing

We should set our base pricing as follows:

UG Tuition

(Cornell/Penn/Duke) - $3,000

Grad, Prof Tuition

(Harvard/Stanford) - $3,000

Example: 95-96 UG Tuition = $17,000

Principles for Discounting Tuition for Michigan Residents

- *A portion of the state appropriation will be used to provide need-based financial aid so that no Michigan resident is denied the opportunity to attend the University because of financial need.*
- *A portion of the state appropriation will be used to support the research and service missions of the University*
- *The remainder of the state appropriation will distributed equally over all resident students to discount the tuition from the market-rate.*

Principle 1: Financial Aid

The University will provide the same level of financial aid per student from state funds that the state provides to private colleges.

Currently, this amounts to an average of $3,000 per student, so that the total amount of the state appropriation used for this purpose becomes:

24,000 students x $3,000 = $72 million

(Note: This amount will be augmented from other nonstate funds to meet the full-financial needs of all Michigan resident undergraduate students.)

Principle 2: Reseach and Service

The University will dedicate the same proportion of its state appropriation for its distinct research and service missions (including clinical care) as other public universities.

For example, if we were to take the amount earmarked for Agriculture and the Cooperative Extension Service at Michigan State University, this would amount to:

$50 million for research and service

Principle 3: Resident tuition discount

The remaining state appropriation dollars will be distributed evenly over all resident students to arrive at a discount representing state support. For example, in 95-96 this would be:

Total state appropriation	$290 M
- financial aid	70 M
- research & service	50 M
Amount available for discount	$ 170 M
State resident discount:	$7,000 per student

Proposed Resident UG Tuition

Base UG tuition	$17,000
- State resident discount	- 7,000
Maximum resident UG tuition	$10,000
- Need-based financial aid	$0 to $10,000
Actual resident UG tuition	$0 to $10,000
Average resident UG tuition	$5,000

Advantages of Market-Based Pricing

- *A more rational approach than the current “cost-based” pricing or budget “plug” approach.*
- *Increases in the base tuition would be constrained by the marketplace to the smaller increments characterizing private institutions (CPI plus 1-2%).*
- *Discounted resident tuition would be linked in a direct and transparent way to state appropriation.*
- *This approach removes the financial incentives to shift instate-outstate mix (since changing the number of Michigan resident students simply adjusts the discount).*
- *This would allow us to report a “range” and “average” of resident tuition that takes full credit for financial aid.*

An Example:

The resident undergraduate tuition at the University of Michigan for 1995-96 will range from $0 to $10,000, with an average tuition charge of $5,000.