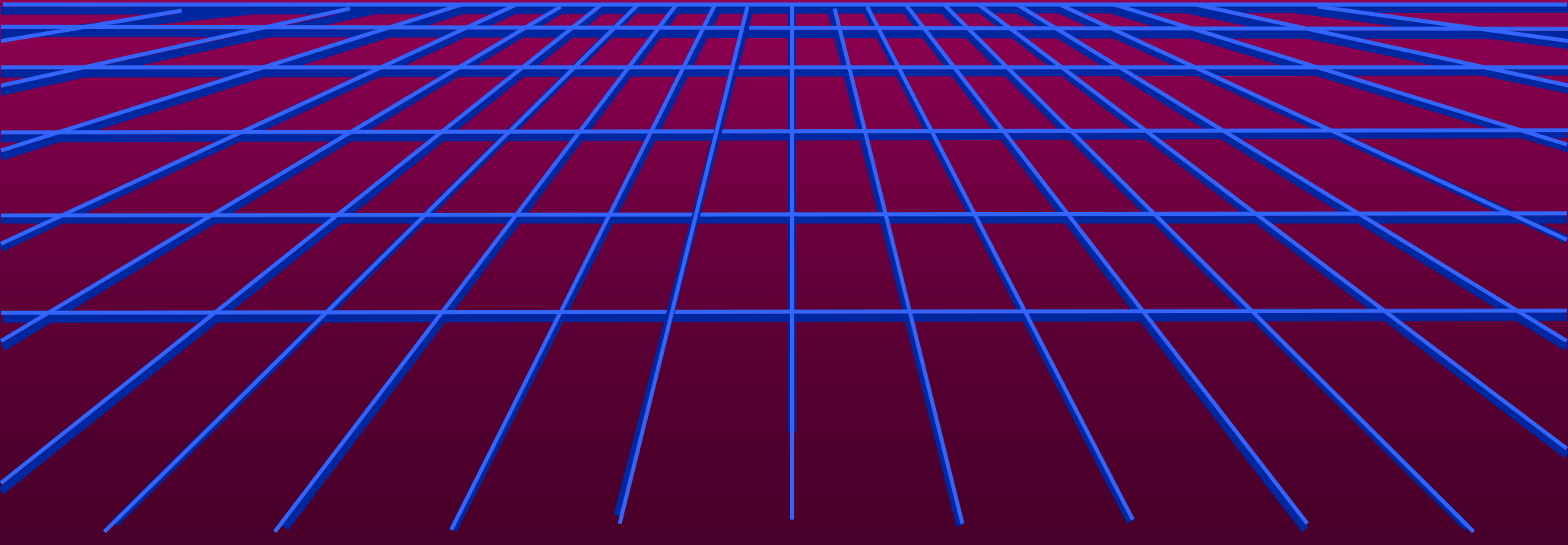
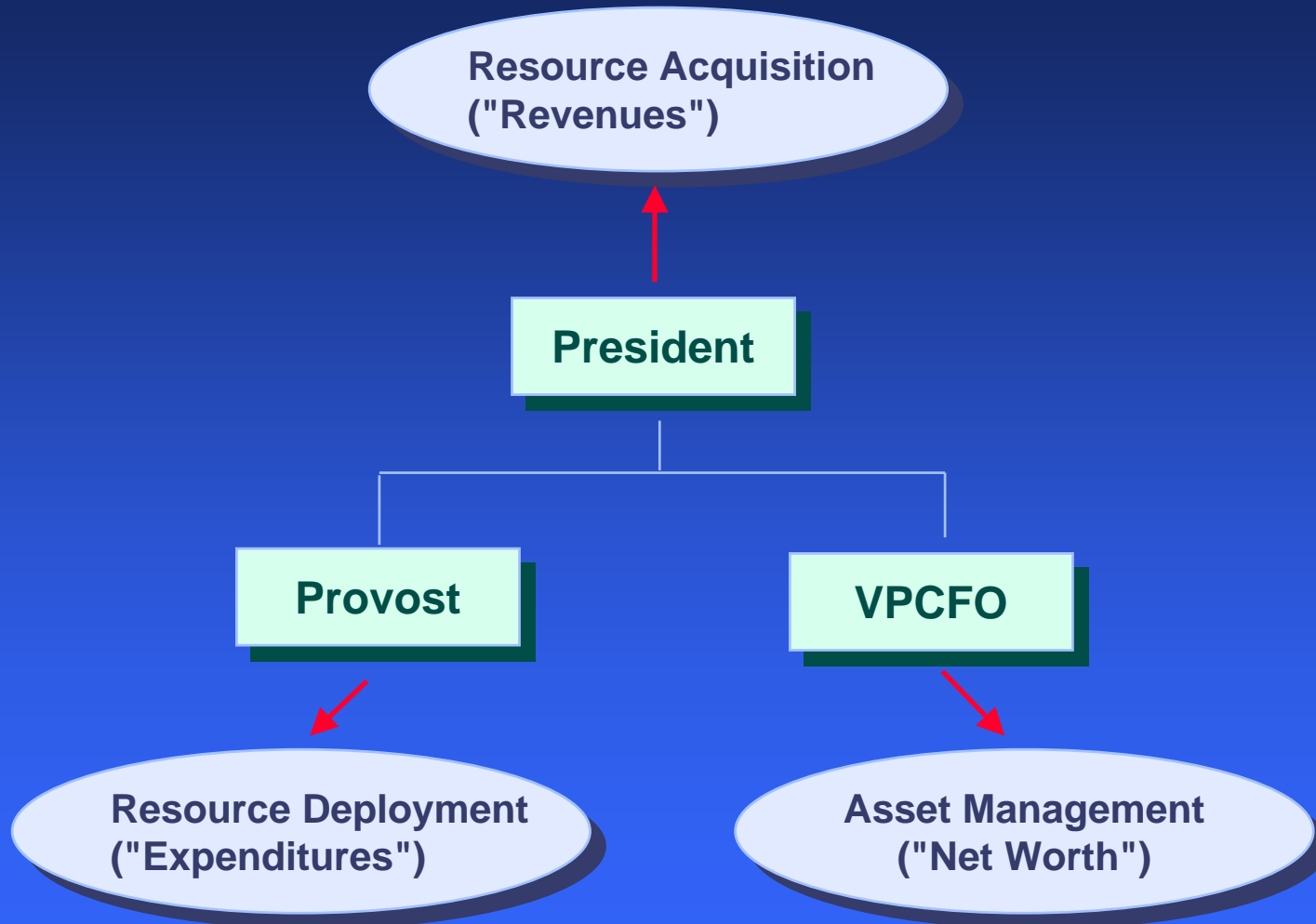


**Financing the Future  
Resources for the 1990's  
...and Beyond**

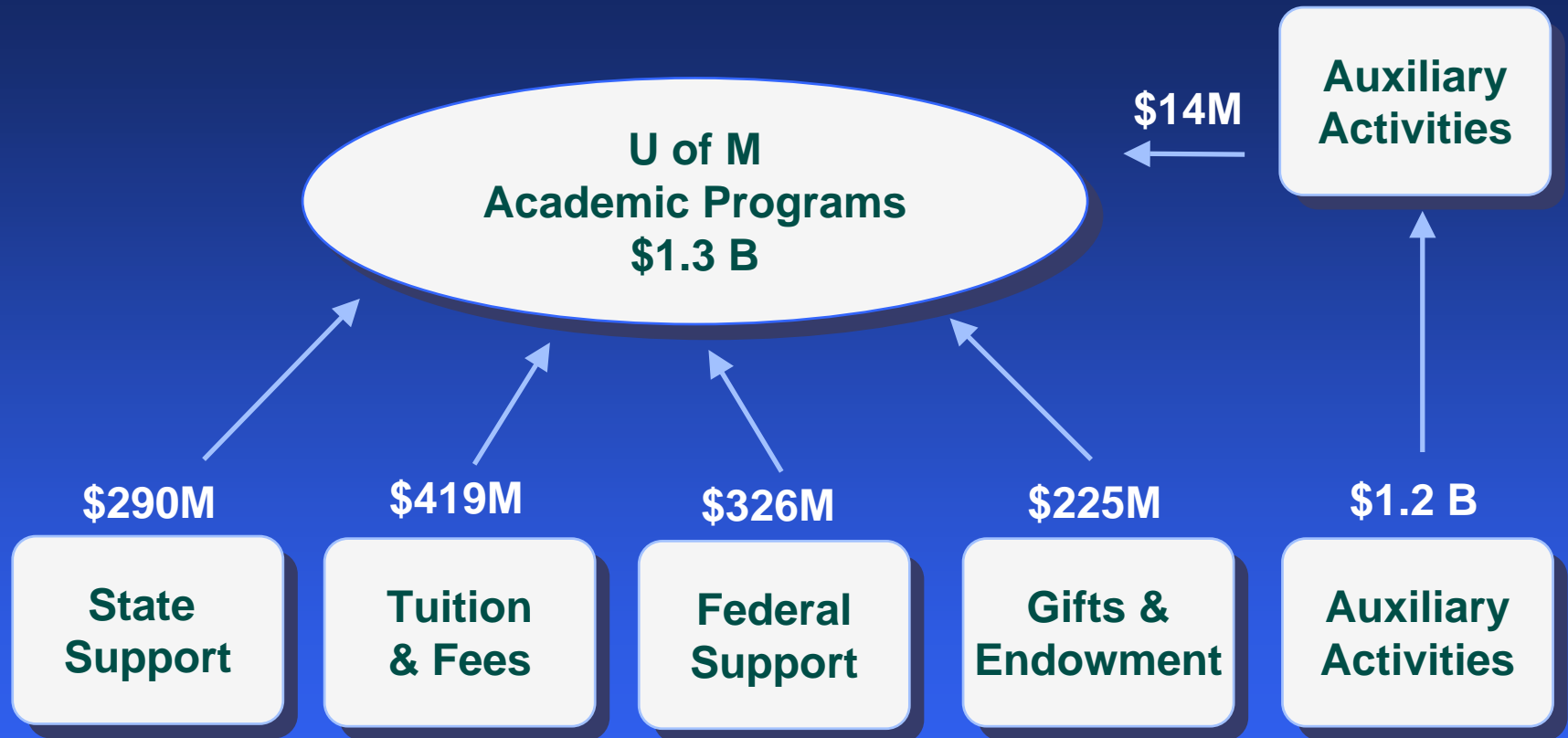


# Executive Officer Responsibilities

2



# UM Revenue Portfolio (FY95)



- Operating Approp
- Capital Outlay

Tuition  
 Instate (33%)  
 Outstate (67%)

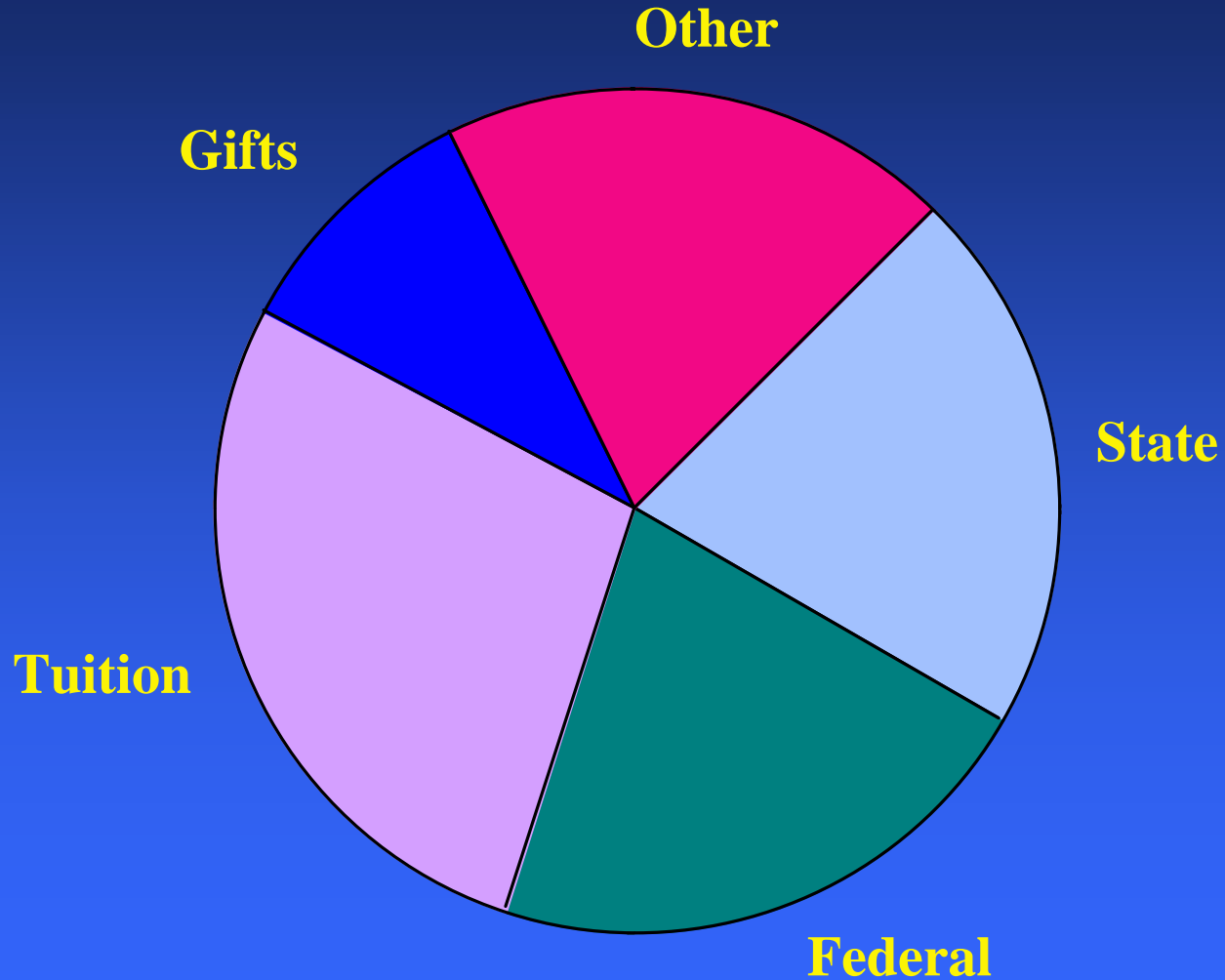
- R&D
- Student Aid

- Gifts (\$160M)
- Endowment Income (\$65M)

- U Hospitals
- Housing
- Intercollegiate Athletics

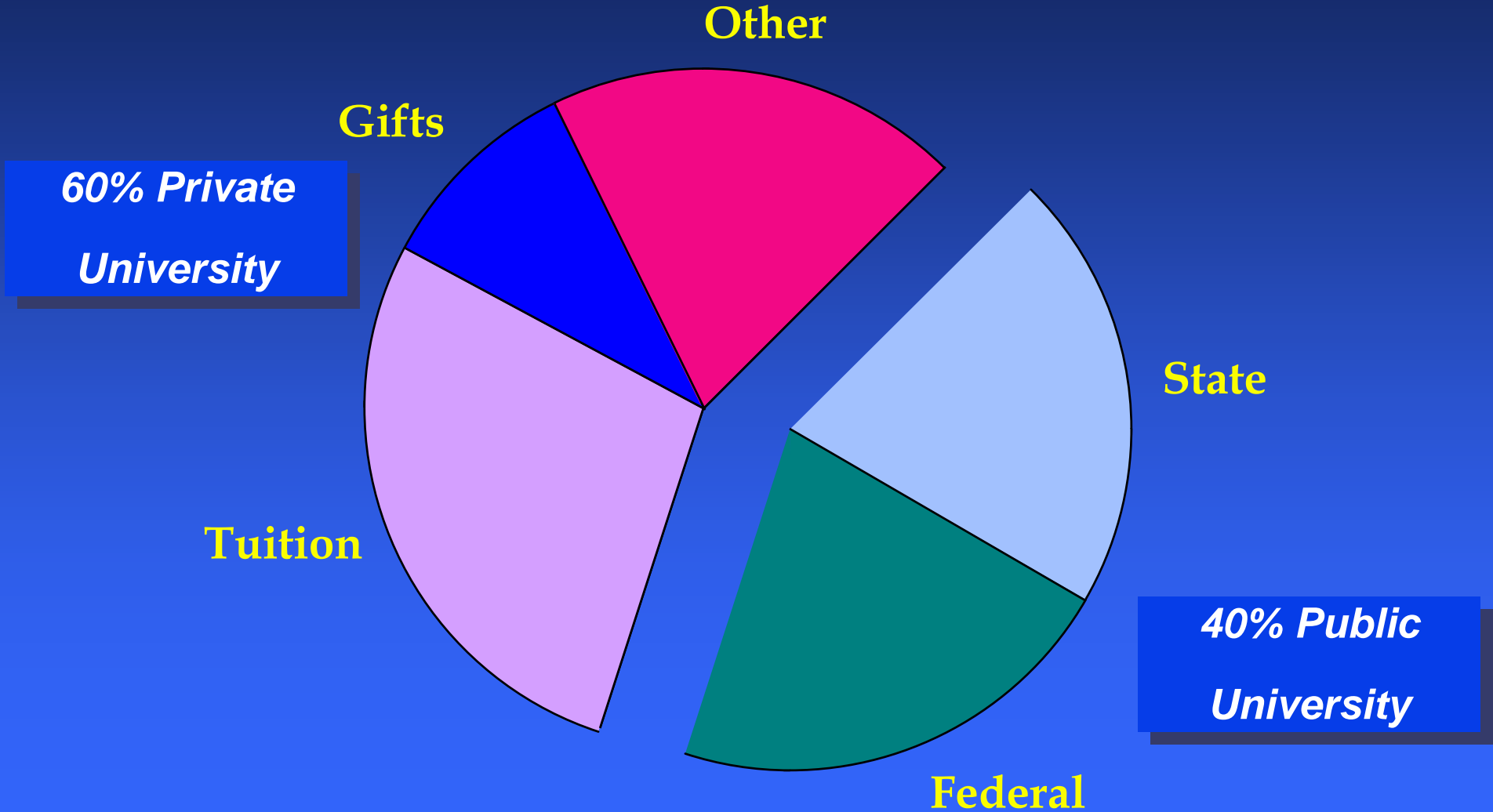
# UM Resource Portfolio

(Not including UM Hospitals)



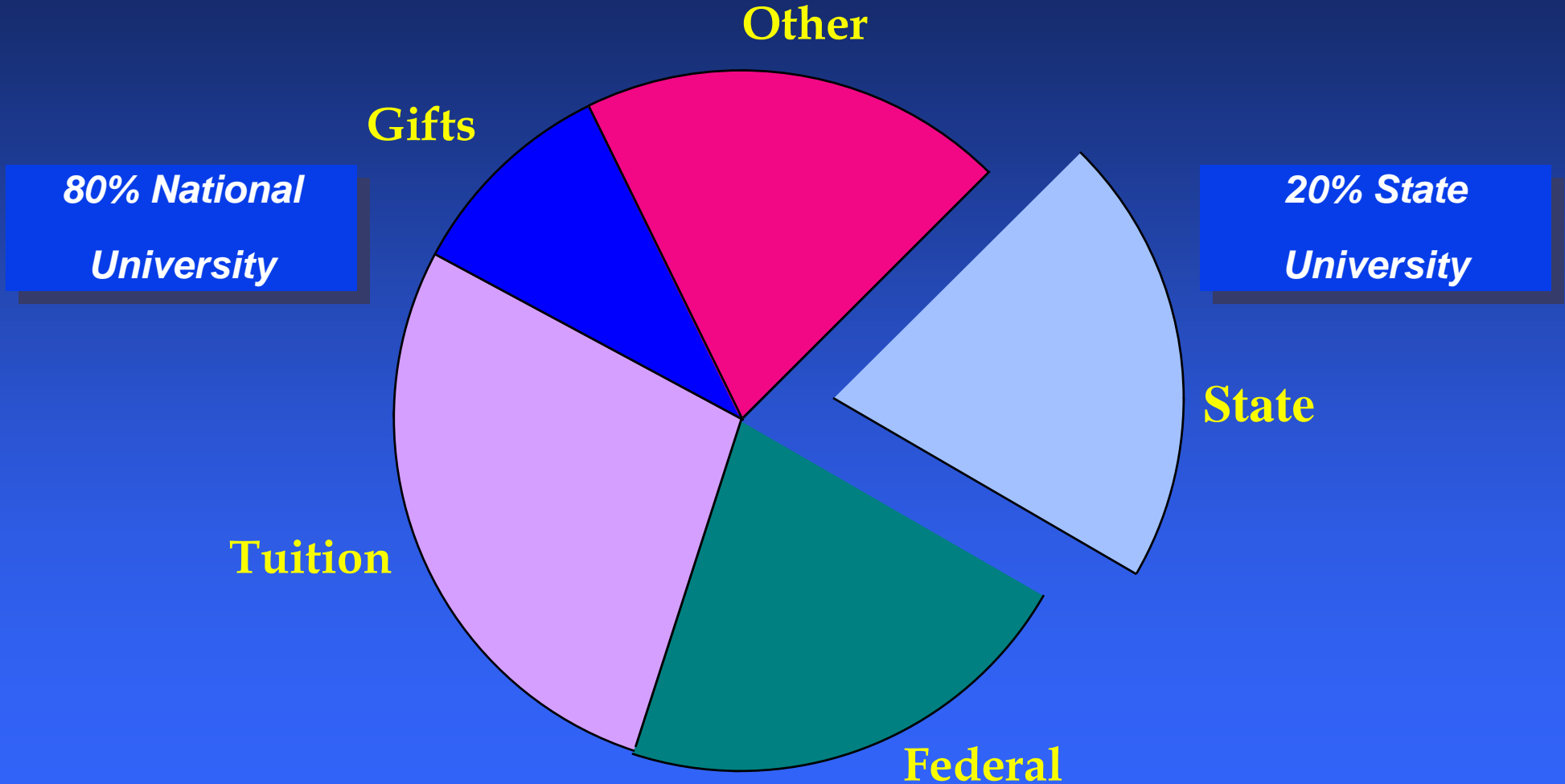
# UM Resource Portfolio

(“public” vs. “private”)

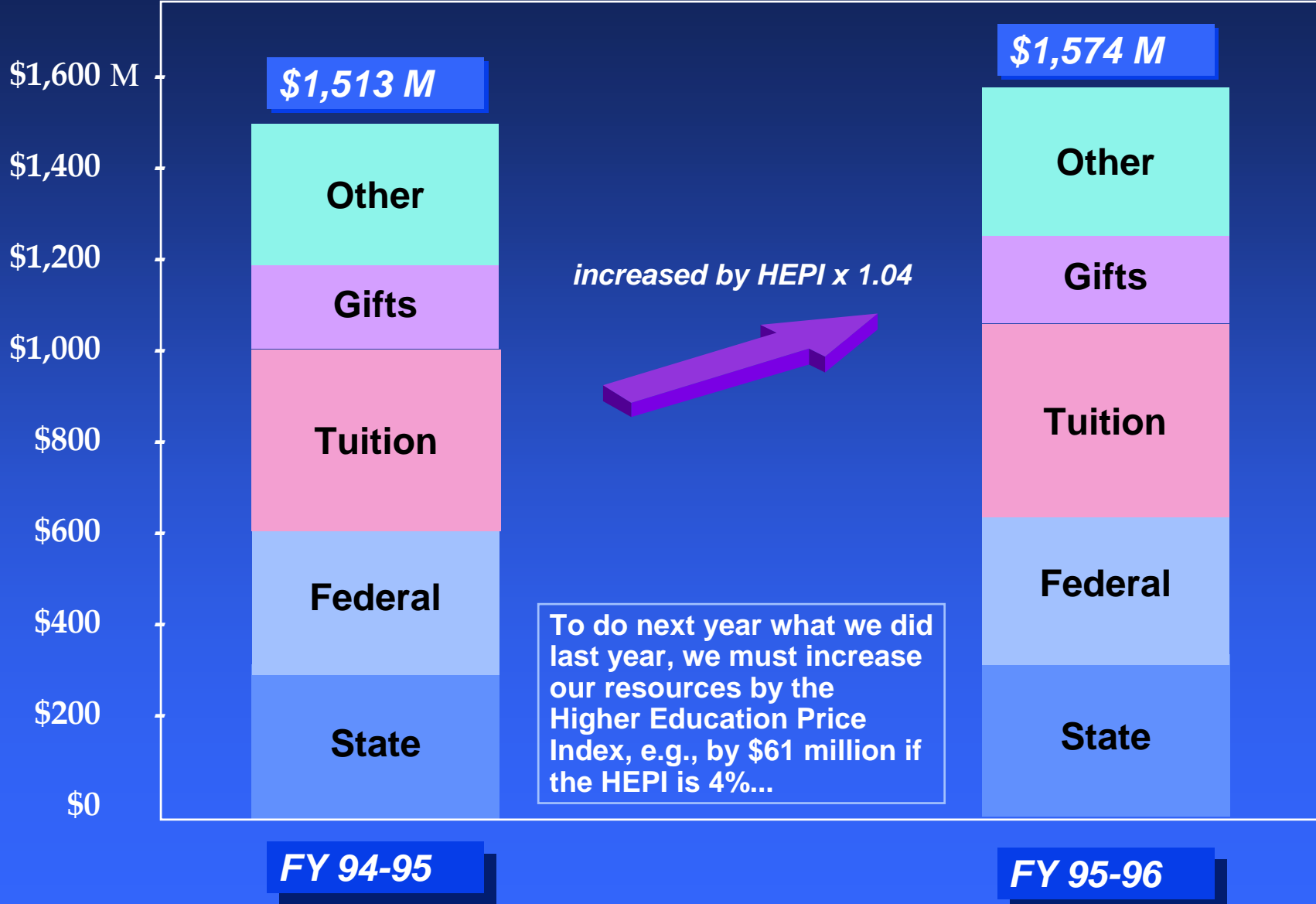


# UM Resource Portfolio

(“state” vs. “national”)



# Projecting Resource Needs



# Resource Options

## *Revenues:*

- **State Support**
- **Federal Support**
- **Tuition and Fees**
- **Private support, Endowment and other 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**



# State Support

# 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 29th in the nation. Over the past decade, Michigan ranks 31st 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 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 (efforts to control tuition levels, MET, legislative efforts to set instate/outstate enrollments, admission criteria, curricula, investment policies).

# Storm Clouds on the Horizon (cont'd) <sup>11</sup>

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.

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

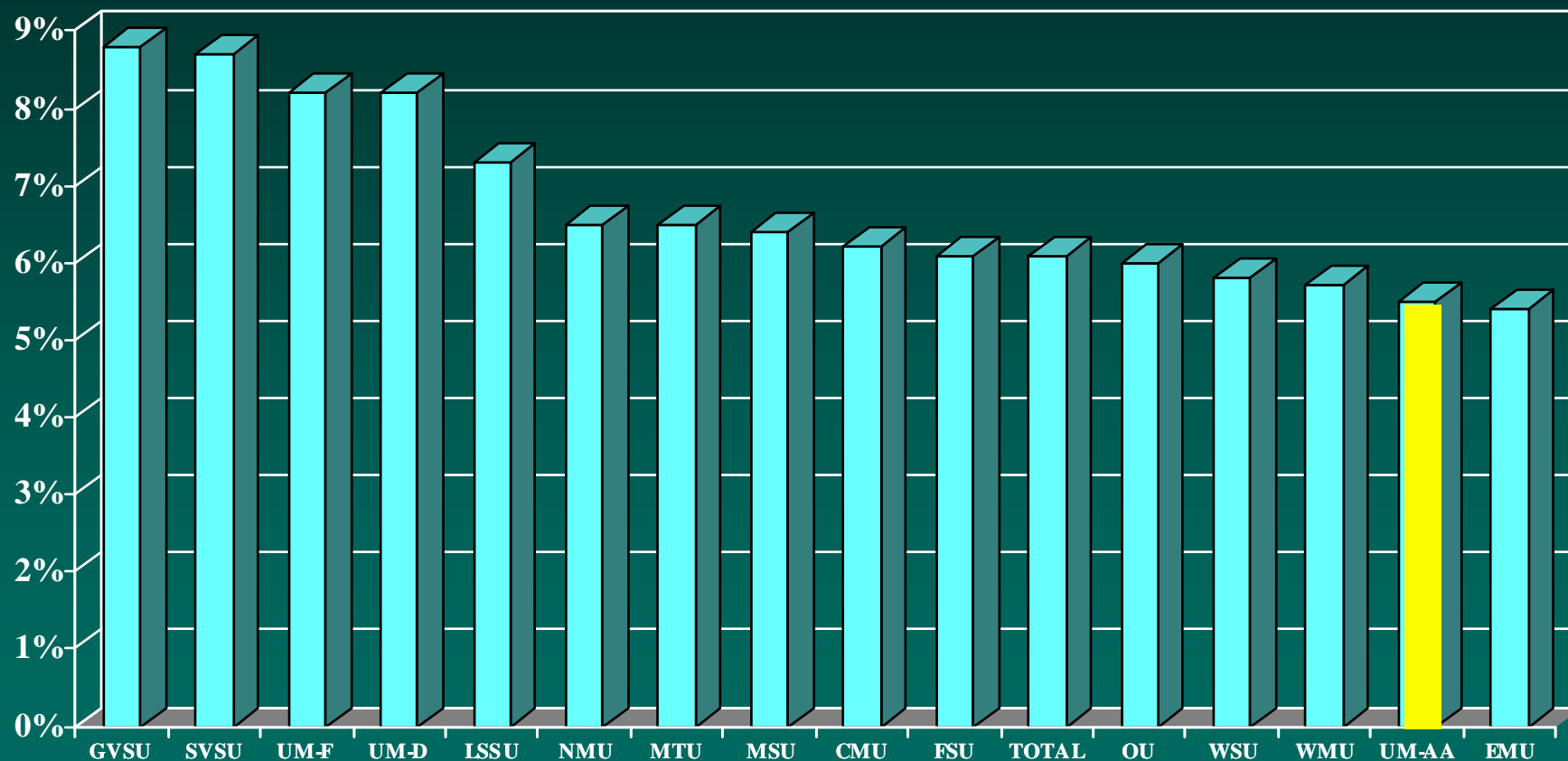
	<u>National Ranking</u>
Tax Dollars Spent per FTE Student	37th
Higher Ed Appropriations per Capita	23rd
Appropriations as % of Tax Revenue	21st
Appropriations per \$1000 of Personal Income	29th
Annual Increase in State Appropriations	28th
Two-Year Increase in State Appropriations	33rd
Ten-Year Increase in State Appropriations	31st

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

	<u>Ranking</u>
FY81	10th
FY82	9th
FY83	10th
FY84	4th
FY85	13th
FY86	4th*
FY87	2nd*
FY88	15th
FY89	11th
FY90	15th
FY91	13th
FY92	15th
FY93	15th
FY94	15th
FY95	14th

\* 15th w/o REF

# Compound Growth in State Appropriations Michigan Public Universities FY71 to FY95



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

## *Operating Appropriations?*

- Education has been a priority of Engler administration...BUT
- Proposal A...corrections and K-12...
- Difficulty in reallocating within shrinking resource base...
- Continuation of trend toward increasing support of private colleges...
- Political favoritism in appropriations priority (...MSU-WMU-GVSU surprise!!!...)

*Conclusion: The best we can expect is for state appropriations to track the inflation rate (and even this may be too optimistic in the next 5 years).*

## *Capital Outlay?*

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

## *Attacks on institutional autonomy?*

- Likely to continue with current legislature

# Federal Support



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

## *Federal R&D Support*

- Deficit reduction measures will reduce resources (25% - 30% decline in federal R&D)
- 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 (capping of rate?)

## *Federal Financial Aid*

- Clearly not a national priority (50% decline in 1980s)

## *Other Federal Tendencies*

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

# 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.

General  
Tax  
Support



Tuition  
and  
Fees

# Tuition and Fees

# Concerns about the Costs of Education

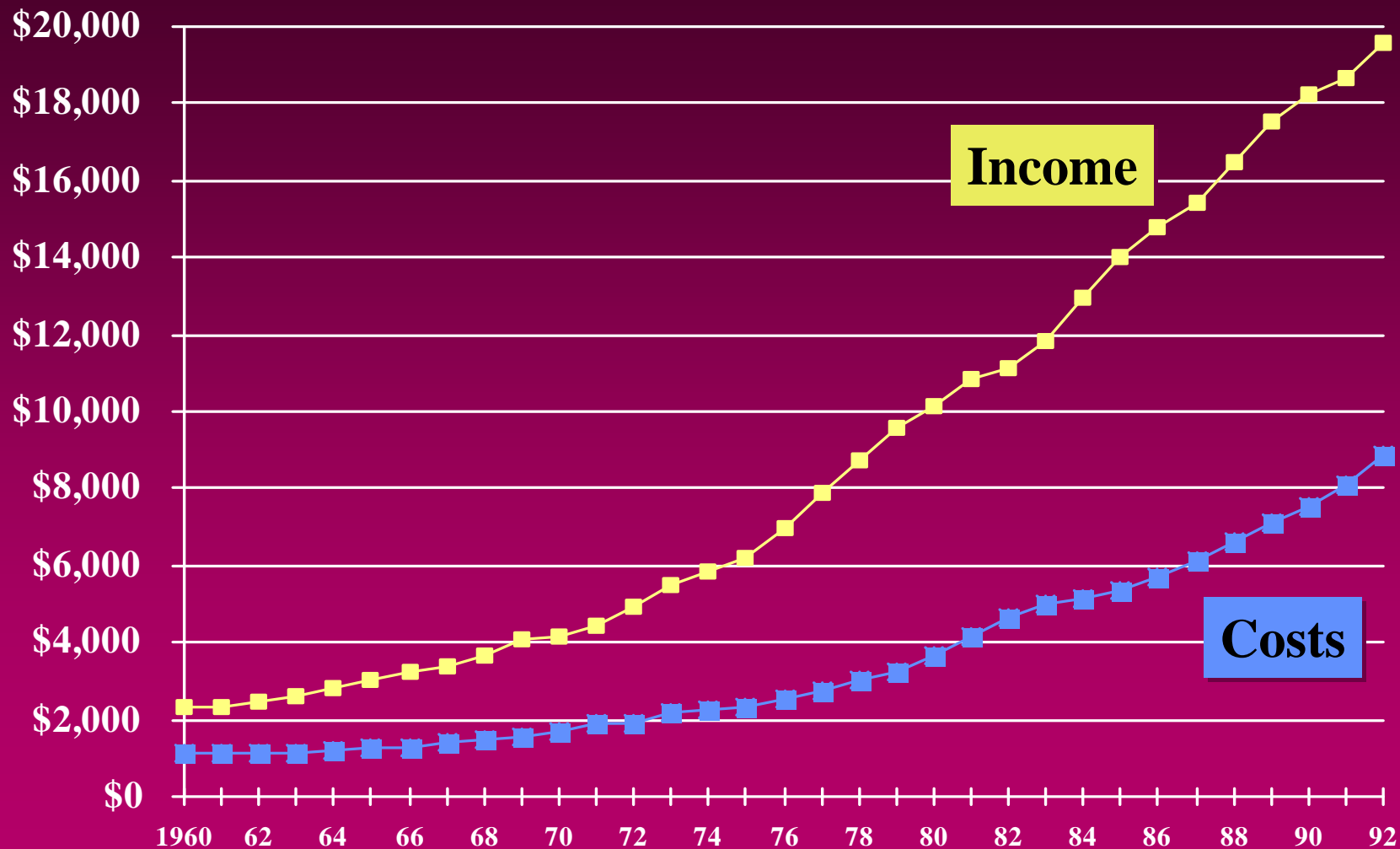
## *Concerned Constituencies:*

- Frustrated parents, frightened that the promise of a college education is being priced beyond their reach
- A generation of students openly skeptical about whether the degrees they seek are worth the stated price
- Public officials who are learning that just saying no to tuition hikes makes for eminently good politics
- Frustrated and disappointed trustees...

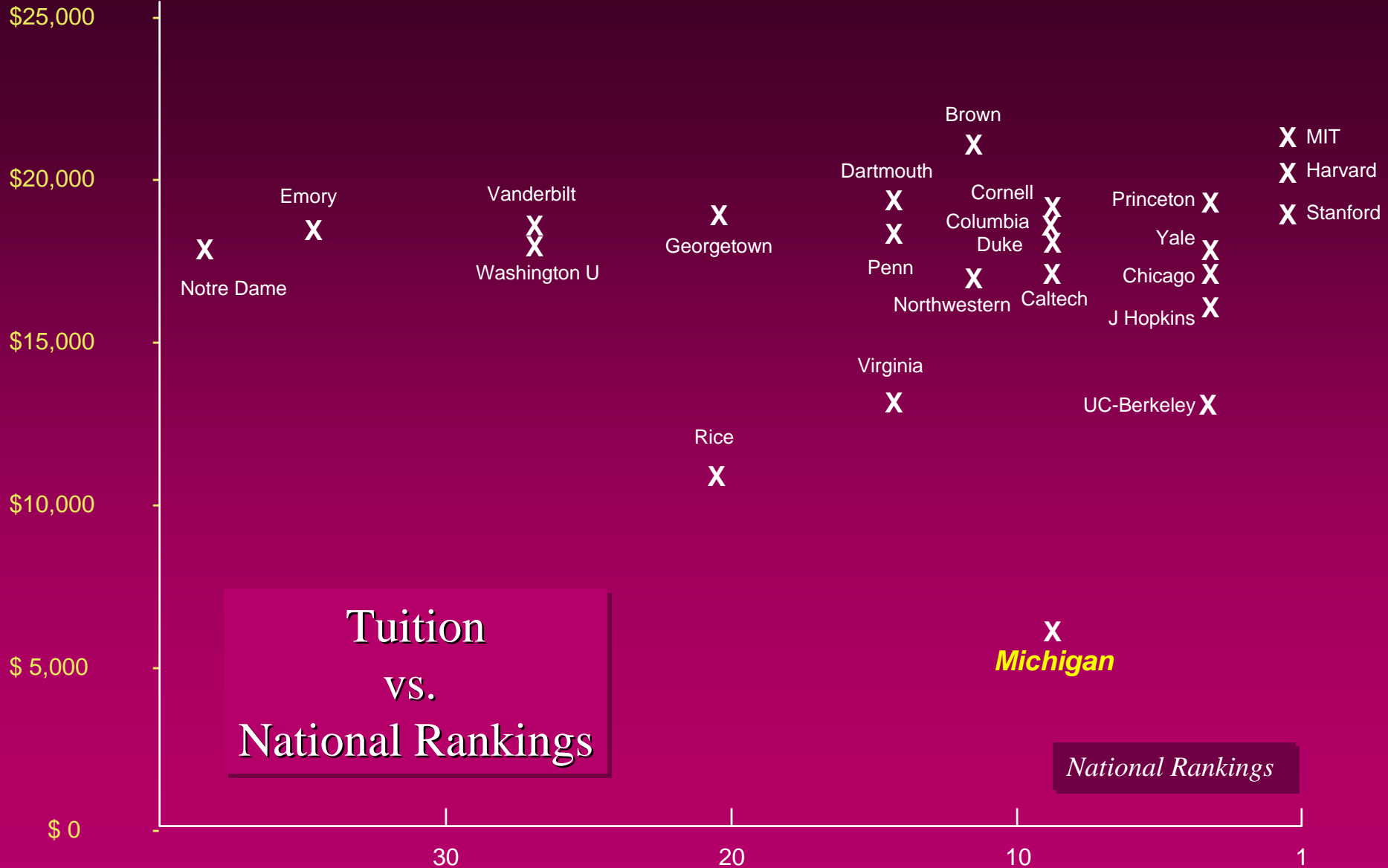
## *Reality:*

- The cost of a college education relative to personal income has not changed in the past couple of decades.
- Strong financial aid programs have protected access for the most disadvantaged of students
- However, it is clear that one can no longer simply "work one's way through college" ...

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



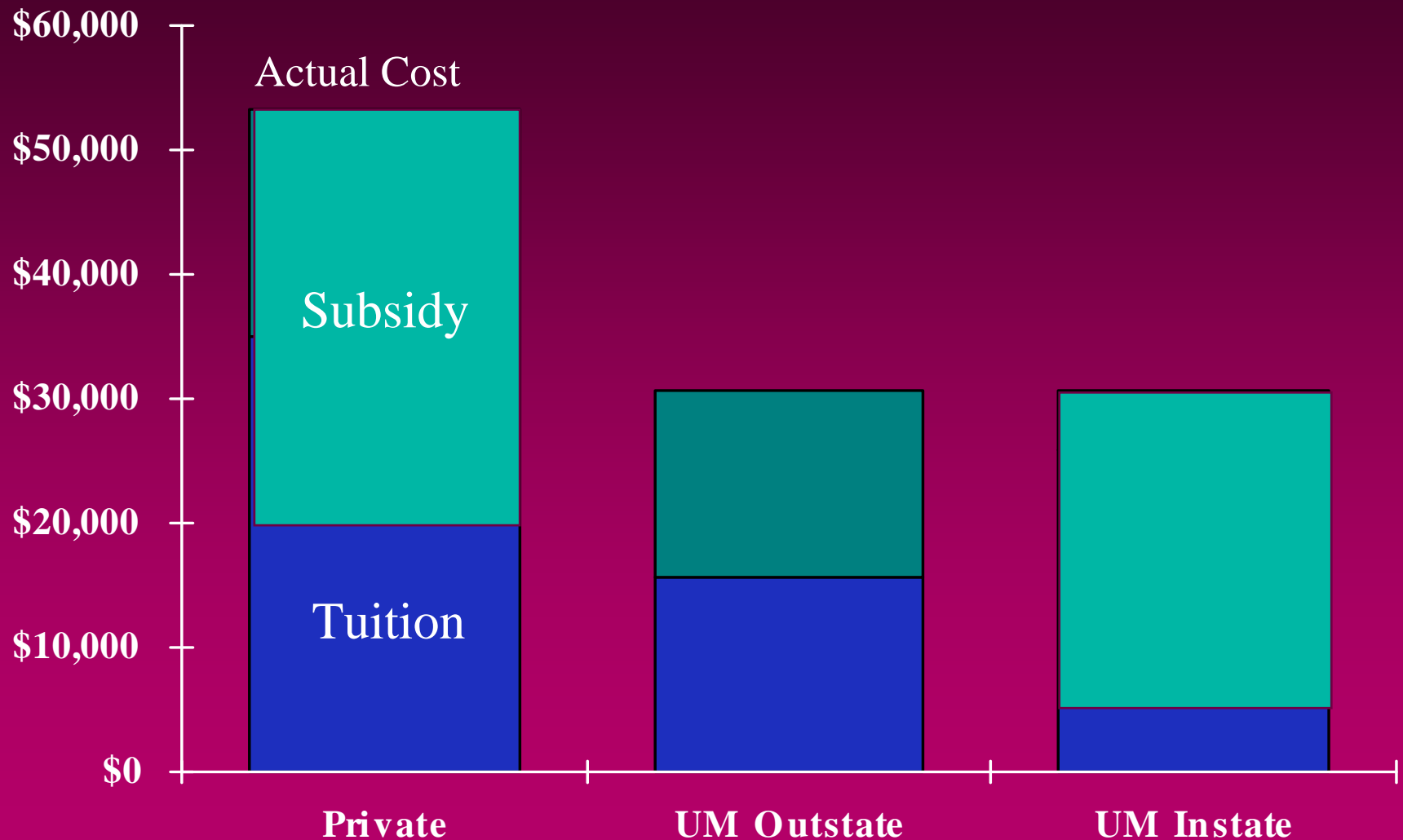
Tuition & Fees



Tuition vs. National Rankings

National Rankings

# Tuition "Prices" vs. "Costs"



# Tuition vs. Subsidy

<u>Institutional Type</u>	<u>Tuition</u>	<u>Subsidy</u>
• Private	34%	66%
• UM Outstate	49%	51%
• UM Instate	18%	82%



# Potential of Additional Tuition Revenue

Current private tuition levels:	\$20,000
Current UM resident tuition:	<u>\$ 6,000</u>
Difference	\$14,000

Maximum additional tuition capacity (gross):

22,000 students x \$14,000 = \$308 million

15,000 students x \$ 5,000 = \$ 75 million

 \$383 million

Discounting for financial aid (- 25%):

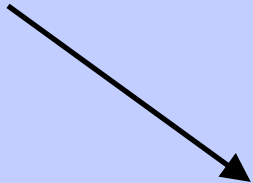
(75%) x \$383 million = \$290 million

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

Max Additional Tuition = \$290 M = State Aid

# Political Constraints

The MET Gorilla



Instate  
Tuition

\$10,000

\$5,000

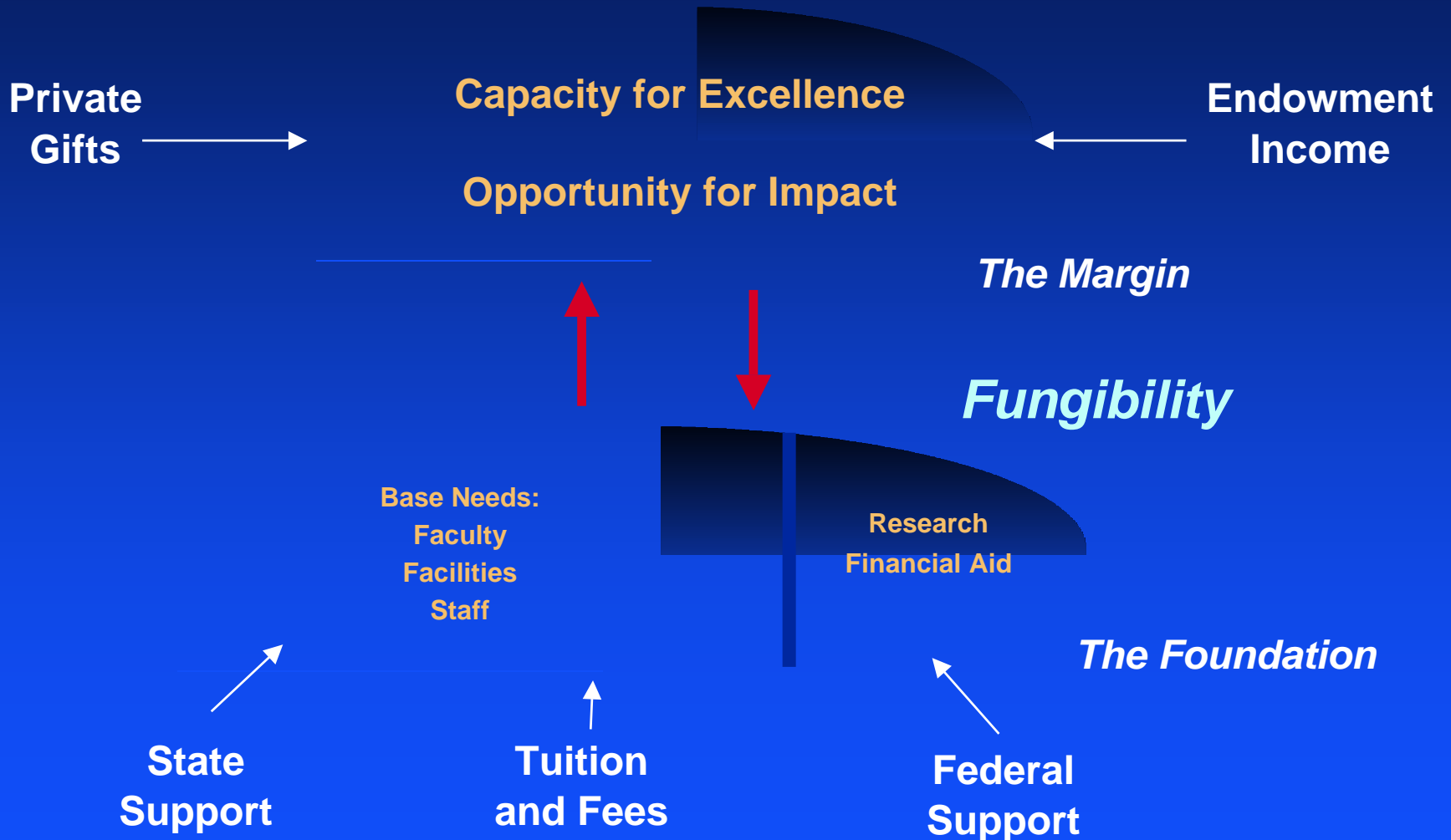


# **Gifts and Endowment Income**

# The Importance of Private Support



# Flexibility and Fungibility



# The Possibility of Strong Private Support

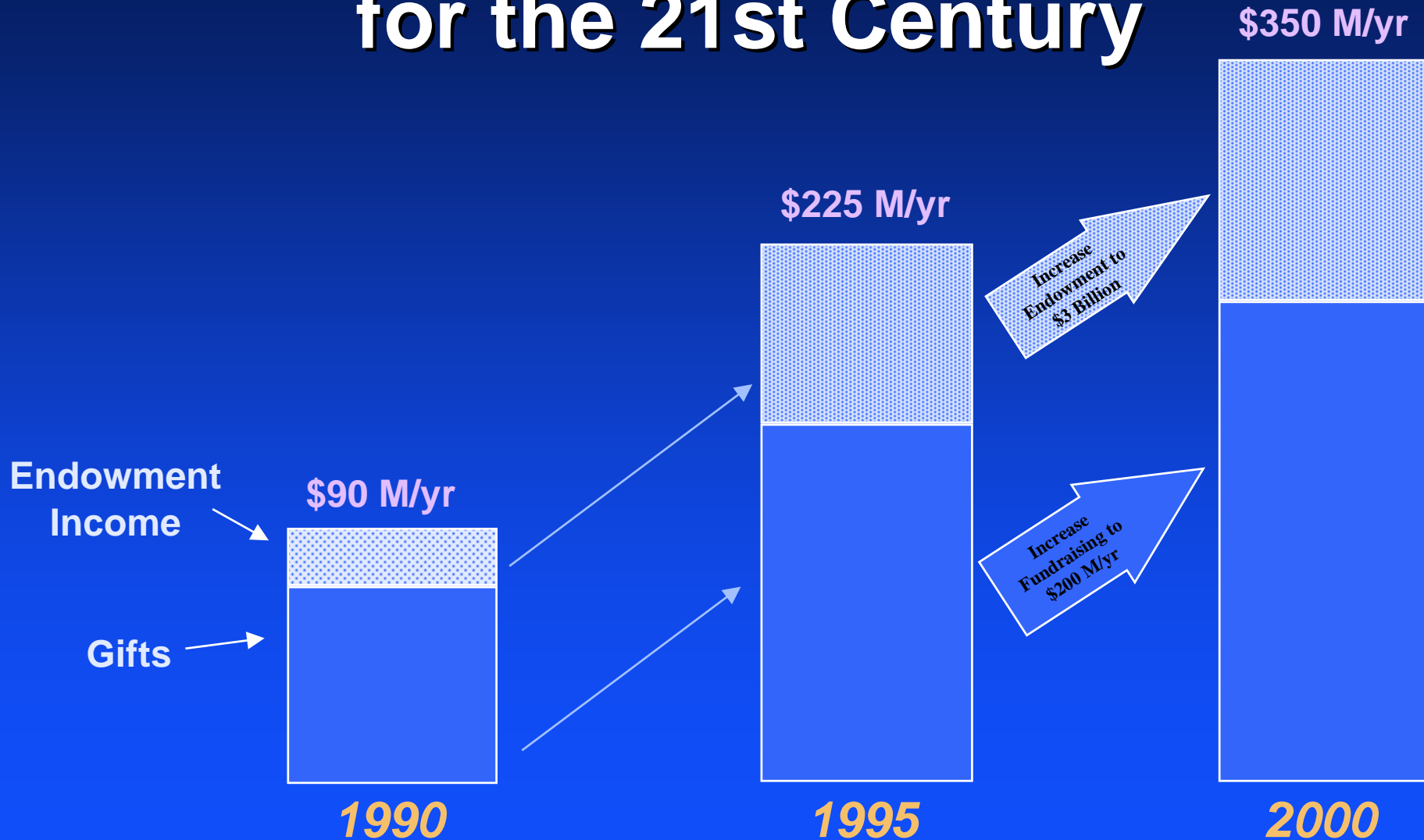
## Present Situation:

<b>Gifts:</b>	<b>\$160 million</b>	}	<b>\$225 M/yr private support</b>
Shows good growth...but still far from where it should be			
<b>Endowment: \$1.3 billion</b>	<b>⇒ \$65 million/yr</b>		
Very low for an institution of this size and quality. UM ranks 22th among all universities (and 3rd 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



# 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

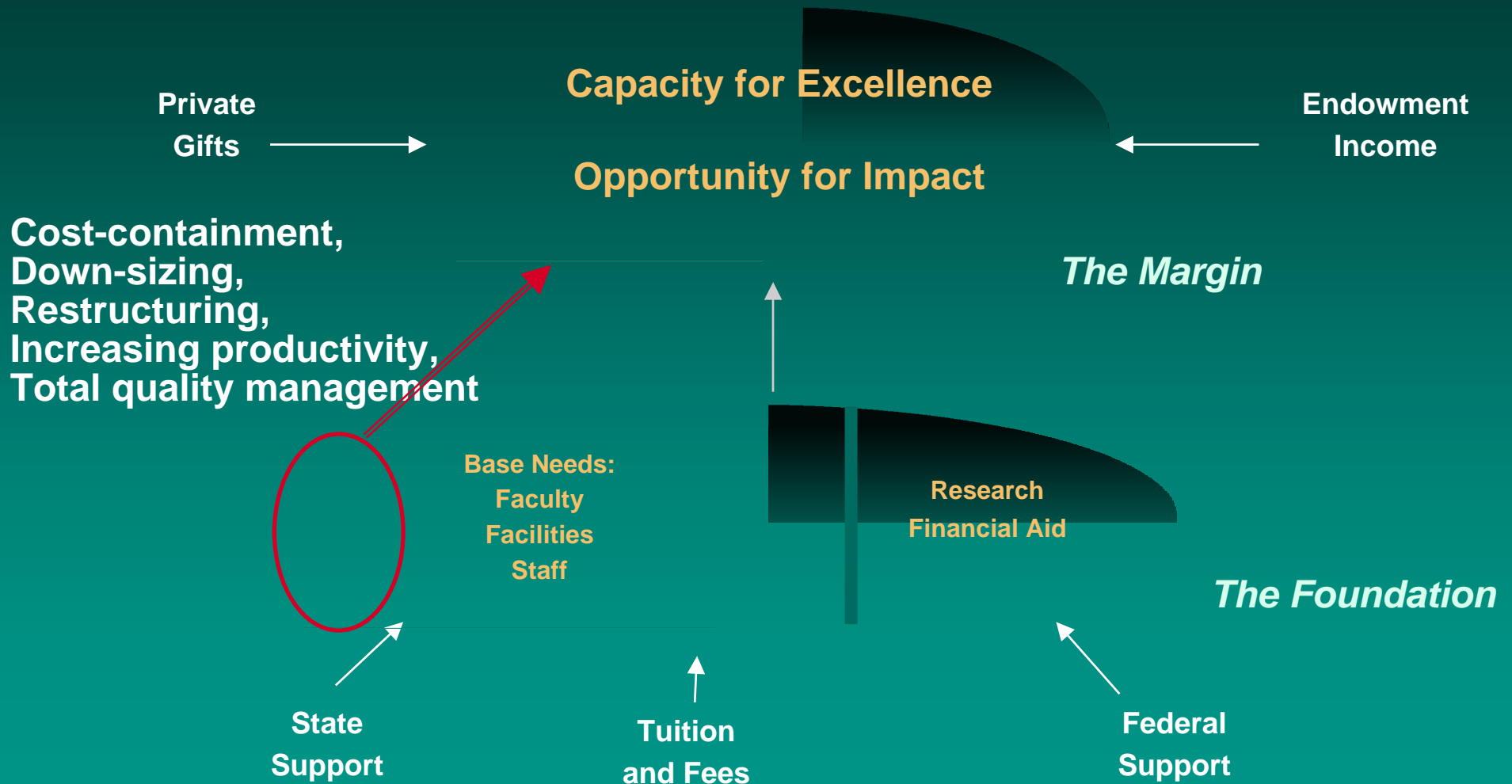
## *Housing*

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

## *Other Ideas: spinoffs, commercial ventures*

# **Enhanced Productivity and Efficiency**

# "Restructuring" Approaches



# Possible Growth Strategies

More creative integration of UMF and UMD into University-wide strategic activities

Year-round operation (since we now have 70% of campus air-conditioned)

## Telecommunications

- television (MITN, cable)
- computer networks (MERIT, NREN)
- broadcasting

## Continuing Education (Lifelong education)

- Professional education (Bus Ad, Eng, Med, ...)
- Personal enrichment (Alumni University, ...)

## Niche Markets

- Seminars for government leaders
- International education
- Summer language institutes

## Alliances

- Community colleges
- Private colleges

# Mixed Public/Private Strategies

## *Models:*

**Cornell:** Mixture of state-supported and endowed schools

**Penn:** Operates as private institutions with strong state support

## *Possible Approaches:*

1. Allow selected schools to attempt to become "privately supported" (e.g., Law, Bus Ad, Medicine), while others (LS&A, Music, ...) receive state "subsidy".
2. Make the argument that Michigan's weakness as a state is that it has no great private universities to give its knowledge infrastructure more resilience to cyclical economic impact. U of M essentially plays this role and hence should be allowed more latitude in its operation.
3. Develop a strategy in which we determine the real costs of a Michigan education (at various levels), and then offer the State the opportunities to purchase as many positions for Michigan residents at whatever tuition level they choose -- provided they offset the real costs with adequate appropriation "subsidy".

# National University Strategies

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## *General Argument:*

Great midwestern public research universities were built during a time of great prosperity when agriculture and manufacturing were the economic engines of America.

These universities have now developed into national resources, producing much of the leadership and research for the nation.

Yet, these institutions are at great risk as the economic strength of the country has shifted to the coasts (associated with international commerce), and the Midwest has been overwhelmed by other priorities (corrections, health care, social services).

## *Questions:*

Is it in the national interest for these institutions to be pulled down by the relative prosperity of their regional economies?

Could we build a Midwest Congressional coalition to pass a new "land-grant act" to provide federal assistance?

# The U of M, Inc.

## *Product Lines:*

- i) Degrees (BS/BA, MS, Ph.d, professional degrees)
- ii) Research
- iii) Public Service
- iv) Economic Impact
- v) Prestige (...pride...morale)
- vi) Health Care
- vii) Entertainment ( = intercollegiate athletics)

# Inputs and Outputs



*Inputs*

*Outputs*



# "Unbundling" Strategies

## "Unbundle" Products:

Mid-career training, nontraditional education, niche markets

## "Unbundle" Pricing:

Differential tuitions and fees

## "Unbundle" Costs:

Link specific revenues to specific outputs  
Restructure labor deployment (teaching, research, service)

## "Unbundle" Distribution:

Telecommunications, networks,...

# Some Final Observations

# 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 near term to increase our state appropriations beyond their present levels (in real terms).
4. Federal support will become more constrained and competitive.
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. Nonresident tuition levels are constrained by the private marketplace.
6. The present "corporate culture" of the University will make significant cost reductions, productivity increases, and even control of growth difficult. Some degree of "restructuring" will be necessary.

# Caveat # 1: A Lesson Learned

The "smaller but better" strategy of the early 1980s was a disappointment...

- i) We didn't get any smaller. (Indeed, we continued to grow!!!)
- ii) We didn't save much money.
- iii) Rather than creating a psychology of prioritization and cost-effectiveness, the strategy clobbered the morale of the University community and created a spirit of distrust and cynicism that we are only now beginning to emerge from.

**Moral of story:** We have to be VERY careful in using "doom and gloom" strategies. Instead we must base our efforts on building a sense of pride and leadership so that we can "restructure" our activities to enhance productivity, quality, and innovation.

Put another way, we should take the more positive approach represented by the "total quality management" efforts developed in the private sector.

# Academic Reputation of Leading Undergraduate Programs †

1. Harvard
1. MIT
1. Stanford
4. Princeton
4. Yale
4. Johns Hopkins
4. UC-Berkeley
9. Michigan
9. Cal Tech
9. Columbia
9. Cornell
9. Duke

†  
US News & World Report  
September 26, 1994

# Academic Reputation of <sup>†</sup> Leading Professional Schools

<u>Law</u>	<u>Business</u>	<u>Medicine</u>	<u>Engineering</u>
1. <i>Michigan</i>	1. MIT	1. Harvard	1. MIT
1. Harvard	1. Penn	2. Johns Hop.	1. Berkeley
1. Stanford	1. Stanford	3. Duke	1. Illinois
1. Chicago	1. Harvard	3. Wash. U	1. Stanford
1. Columbia	1. N'western	3. Stanford	1. Cal. Tech
1. Yale	1. Chicago	6. Yale	6. <i>Michigan</i>
7. NYU	7. <i>Michigan</i>	6. UCSF	7. Purdue
7. Virginia	8. Berkeley	6. Penn	7. Ga. Tech.
7. Berkeley	8. Dartmouth	6. U of Wash.	7. Cornell
10. Duke	8. UCLA	10. <i>Michigan</i>	10. C. Mellon
10. N'western		10. Columbia	10. Wisconsin
10. Penn			
10. Cornell			
10. Texas			

# Financial Resources per Student<sup>†</sup> 47

1. Cal Tech
2. Johns Hopkins
3. Harvard

.....

10. Columbia
11. Princeton

.....

14. Duke

.....

20. Carnegie Mellon

.....

- 29. Michigan**

<sup>†</sup> US News & World Report  
September 26, 1994

# How do we compare in resources?

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

$$\begin{aligned} \text{Total academic expenditures} &= \text{General Fund} \\ &+ \text{Designated Fund} \\ &+ \text{Expendable Restricted Fund} \end{aligned}$$

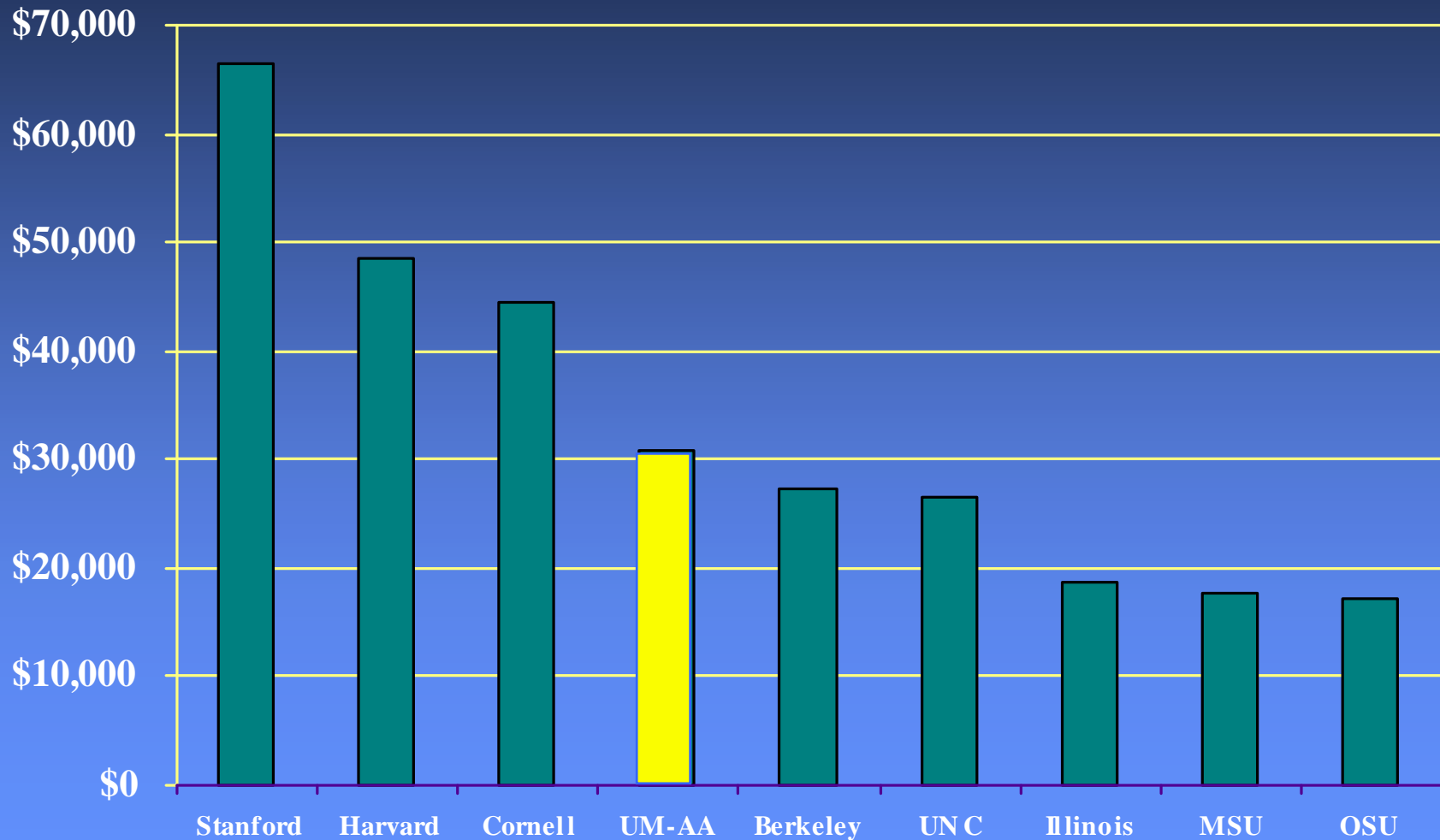
For example, for UMAA in FY94, this amounts to

$$\$709 \text{ M} + \$71 \text{ M} + \$417 \text{ M} = \$1.2 \text{ B} / 36,500$$

*\$32,800 per student*



# FY 1994 Expenditures per Student



# An Interesting Comparison

	<u>FY94</u>	
	<u>Harvard</u>	<u>Michigan</u>
• State Appropriation	\$ 0M	\$ 261 M
• Income on Endowment	283	16
• Tuition	368	351
• Gifts	176	9
• Federal Support	234	311
• Other	<u>139</u>	<u>104</u>
	Total (less Aux. & Hospitals)	
	\$1,238	\$1,134
• <i>Enrollment</i>	<i>26,000</i>	<i>36,500</i>
• <i>Revenue/Student</i>	<i>\$47,615</i>	<i>\$31,068</i>

# Caveat # 2: The importance of a balanced strategy<sup>51</sup>

## Three objectives:

- Increasing resources available to University
- Constraining costs and enhancing quality of University
- Protecting assets (financial, physical, human) of University

We must achieve a balance among the attention, energy, and effort directed at each objective.

## Example:

- i) It is clear that the University of Michigan presently achieves a quality (and capacity) comparable to peer institutions at only a fraction of the cost. Indeed, one could make the case that we are probably the lowest-cost, world-class university in the nation.
- ii) Hence, while our cost containment efforts will be very important, they will not solve the problem of our serious underfunding relative to peer institutions. Revenue enhancement must receive equal emphasis.

# Another way to look at the challenge of cost containment and restructuring...

Stanford, Harvard:

Cadillac



Buick

Cornell, Penn:

Buick



Oldsmobile

Michigan:

Chevrolet



Saturn

# 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.

