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
- Hearings of Legislative Higher Ed Appropriation Committees
- Legislative Action
- Governor's Budget Recommendation
- Governor's Signature
The Budget Preparation Process

CBA
"2x4" Working Group
(VPAA, VPCFO, staff)

Discussions with Units

Provost

Advisory Groups:
AAAC
BPC

Committee on Budget Administration

Board of Regents
Incremental Budgeting

Increment: $50.2 M
## FY88-89 State Budget Request

<table>
<thead>
<tr>
<th>Item</th>
<th>Detail</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Costs</strong></td>
<td></td>
<td>$9,400,000</td>
</tr>
<tr>
<td>Staff Benefits</td>
<td>$2,800,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>3,400,000</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>New Space</td>
<td>2,900,000</td>
<td></td>
</tr>
<tr>
<td><strong>Compensation Program</strong></td>
<td></td>
<td>13,300,000</td>
</tr>
<tr>
<td>Minority Recruitment &amp; Retention</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>4,000,000</td>
<td></td>
</tr>
<tr>
<td>Undergraduate Student Support</td>
<td>3,000,000</td>
<td></td>
</tr>
<tr>
<td>Graduate Student Support</td>
<td>3,000,000</td>
<td></td>
</tr>
<tr>
<td>Faculty Salary Restoration</td>
<td>2,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>Program Initiatives</strong></td>
<td></td>
<td>5,000,000</td>
</tr>
<tr>
<td>Undergraduate Education</td>
<td>3,000,000</td>
<td></td>
</tr>
<tr>
<td>Sciences</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>University Libraries</td>
<td></td>
<td>2,000,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td></td>
<td>2,000,000</td>
</tr>
<tr>
<td>Deferred Maintenance Fund</td>
<td></td>
<td>4,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$50,200,000</td>
</tr>
</tbody>
</table>
Requested Increase in General Fund Budget

Minimum increase necessary to meet commitments (as seen last fall...) $36.0 M

Step toward closing funding gap (estimated at $50 - $60 M/y) $14.2 M

Total Request $50.2 M

(11% increase on FY87-88 General Fund Budget of $444 M)
Balancing the General Fund Budget...

Revenues:
- Appropriation
- Tuition
- Indirect Cost
- Interest

Expenses:
- Ongoing Commitments
- Critical Needs
- Closing Funding Gap

Gap
# The Current State Appropriation Picture

<table>
<thead>
<tr>
<th></th>
<th>On Reduced Base</th>
<th>On Original Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor's Recommendation:</td>
<td>1.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>(including Research Excell. Fund)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senate Higher Ed Appro Comm:</td>
<td>2.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>House Higher Ed Appro Comm:</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>
# The Current State Appropriation Picture

<table>
<thead>
<tr>
<th></th>
<th>State FY89</th>
<th>UM FY88-89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor's Recommendation:</td>
<td>$1.8 M *</td>
<td>$3.8 M **</td>
</tr>
<tr>
<td>Senate Higher Ed Appro Comm:</td>
<td>$3.2 M *</td>
<td>$4.8 M **</td>
</tr>
<tr>
<td>House Higher Ed Appro Comm:</td>
<td>???</td>
<td>???</td>
</tr>
</tbody>
</table>

**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...

Revenue

Needs

Shortfall
???

Tuition???

Restoration
Step
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
<table>
<thead>
<tr>
<th>Tuition Increase</th>
<th>Tuition Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>$0M</td>
</tr>
<tr>
<td>5%</td>
<td>$5M</td>
</tr>
<tr>
<td>10%</td>
<td>$10M</td>
</tr>
<tr>
<td>15%</td>
<td>$15M</td>
</tr>
<tr>
<td>20%</td>
<td>$20M</td>
</tr>
<tr>
<td>25%</td>
<td>$25M</td>
</tr>
<tr>
<td>30%</td>
<td>$30M</td>
</tr>
<tr>
<td>35%</td>
<td>$35M</td>
</tr>
</tbody>
</table>
State Appropriations for Higher Education in Michigan

A Brief History
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)

- State Appropriation
- Tuition and Fees
- Other Revenue

Year:
- 1960
- 1965
- 1970
- 1975
- 1980
- 1985
- 1990

Revenue Components:
- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%
### Michigan's National Rankings

State Appropriation for Higher Education

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

"Little Twelve"

UM

MSU

WSU

FY69 FY71 FY73 FY75 FY77 FY79 FY81 FY83 FY85 FY87 FY89
Annual Percent Growth in State Appropriations
Michigan Public Universities

FY 88-89 Budget Process

FY71-FY89

FY79-FY89
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

State Appropriation
Tuition & Fees
Other
Changing Mix of General Fund Revenue
1960 to 1990
Wayne State University

State Appropriation
Tuition & Fees
Other
Changing Mix of General Fund Revenue
FY75 - FY87
All Michigan Public Universities

State Appropriation

Tuition & Fees

Other
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
Other Revenue
Student Fees
State Appropriations per FTE Student
University of California System
vs.
University of Michigan - Ann Arbor

<table>
<thead>
<tr>
<th>Year</th>
<th>University of California</th>
<th>University of Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>81-82</td>
<td>$4,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>83-84</td>
<td>$6,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>85-86</td>
<td>$10,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>87-88</td>
<td>$12,000</td>
<td>$8,000</td>
</tr>
</tbody>
</table>
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

![](image.png)

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

Income

Tuition, Room & Bd
UM-AA General Fund
Financial Aid Budget Increases
Compared to Tuition Rate Increases

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Aid Increase (%)</th>
<th>Tuition Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>83-84</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>84-85</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>85-86</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>86-87</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>87-88</td>
<td>16%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Changing Levels of Scholarships and Grants by Source of Funds

- **1983-84**
  - Federal Funds
  - General Fund & non-Federal Exp Res Funds

- **1987-88 (Est.)**
  - Federal Funds
  - General Fund & non-Federal Exp Res Funds
Financial Aid Expenditures in Key Minority Grant Programs

1983-84: $4,000,000
1987-88 (est.): $8,000,000
1988-89 (proj.): $10,000,000
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**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships</td>
<td>$56 million</td>
</tr>
<tr>
<td>Loans</td>
<td>$30 million</td>
</tr>
<tr>
<td>Employment</td>
<td>$31 million</td>
</tr>
</tbody>
</table>

**Total Financial Aid:** $117 million

**Note:** Roughly 65% to 70% of students receive some form of financial aid.
Proportion of Admitted Freshmen Who Enroll by Family Income Level

- < $20,000
- $20,000-$44,999
- $45,000-$69,999
- $70,000 and above
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

<table>
<thead>
<tr>
<th>Institution</th>
<th>Tuition</th>
<th>Staff Salaries</th>
<th>Faculty Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>8.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>B</td>
<td>6.7%</td>
<td>4.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>C</td>
<td>8.4%</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>D</td>
<td>10.0%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>E</td>
<td>6.0%</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>F</td>
<td>9.1%</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>G</td>
<td>9.2%</td>
<td>5.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>H</td>
<td>7.2%</td>
<td>5.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>I</td>
<td>10.0%</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>J</td>
<td>9.6%</td>
<td>5.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>K</td>
<td>7.4%</td>
<td>4.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>L</td>
<td>8.0%</td>
<td>6.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>M</td>
<td>5.75%</td>
<td>5.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>N</td>
<td>11.6%</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>O</td>
<td>9.5%</td>
<td>5.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>P</td>
<td>8.5%</td>
<td>7.0%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

**Averages:** 8 - 10% 4 - 6% 6 - 8%
## Big Ten Institutions

<table>
<thead>
<tr>
<th>Institution</th>
<th>State App</th>
<th>Tuition</th>
<th>Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0.0</td>
<td>6.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>B</td>
<td>2.7%</td>
<td>22.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>C</td>
<td>7.1%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>D</td>
<td>7.0%</td>
<td>12.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>E</td>
<td>0.8%</td>
<td>10.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>F</td>
<td>0.8%</td>
<td>13.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>G</td>
<td>3.5%</td>
<td>5.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>H</td>
<td>0.0</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>I</td>
<td>4.1%</td>
<td>10.9%</td>
<td>7.7%</td>
</tr>
<tr>
<td>J</td>
<td>6.4%</td>
<td>7.6%</td>
<td>4.5%</td>
</tr>
<tr>
<td>K</td>
<td>4.0%</td>
<td>5.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Ranges: 1 - 7%  | 5 - 22%  | 4 - 10%
### Big Ten Institutions*

<table>
<thead>
<tr>
<th>Institution</th>
<th>State App</th>
<th>Tuition</th>
<th>Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>2.7%</td>
<td>22.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>C</td>
<td>7.1%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>D</td>
<td>7.0%</td>
<td>12.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>E</td>
<td>0.8%</td>
<td>10.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>F</td>
<td>0.8%</td>
<td>13.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>I</td>
<td>4.1%</td>
<td>10.9%</td>
<td>7.7%</td>
</tr>
<tr>
<td>J</td>
<td>6.4%</td>
<td>7.6%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Ranges: 1 - 7%  5 - 22%  4 - 10%

*Excepting private institutions and those institutions with state-controlled tuition levels.
# FY 88-89 Budget Process

## Michigan Colleges and Universities

<table>
<thead>
<tr>
<th>Institution</th>
<th>Tuition and Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>11.5%</td>
</tr>
<tr>
<td>B</td>
<td>10% minimum</td>
</tr>
<tr>
<td>C</td>
<td>10% minimum</td>
</tr>
<tr>
<td>D</td>
<td>&gt; 10%</td>
</tr>
<tr>
<td>E</td>
<td>10% - 15%</td>
</tr>
<tr>
<td>F</td>
<td>13%</td>
</tr>
<tr>
<td>G</td>
<td>10% - 15%</td>
</tr>
<tr>
<td>H</td>
<td>13.3%</td>
</tr>
<tr>
<td>I</td>
<td>9.7%</td>
</tr>
<tr>
<td>J</td>
<td>not available yet</td>
</tr>
<tr>
<td>K</td>
<td>not available yet</td>
</tr>
<tr>
<td>L</td>
<td>10%</td>
</tr>
<tr>
<td>M</td>
<td>10%</td>
</tr>
</tbody>
</table>
Some Final Observations...
Tuition Cost to a Michigan Resident at the Top Ten National Universities (USN&WR)

<table>
<thead>
<tr>
<th>Institution</th>
<th>1987-88 Tuition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stanford</td>
<td>$11,880</td>
</tr>
<tr>
<td>2. Harvard</td>
<td>12,015</td>
</tr>
<tr>
<td>3. Yale</td>
<td>12,360</td>
</tr>
<tr>
<td>4. Princeton</td>
<td>12,550</td>
</tr>
<tr>
<td>5. UC Berkeley</td>
<td>5,766</td>
</tr>
<tr>
<td>6. Dartmouth</td>
<td>12,474</td>
</tr>
<tr>
<td>7. Duke</td>
<td>10,214</td>
</tr>
<tr>
<td>8. Chicago</td>
<td>12,300</td>
</tr>
<tr>
<td>9. UM</td>
<td>2,883</td>
</tr>
<tr>
<td>10. Brown</td>
<td>12,876</td>
</tr>
</tbody>
</table>
Tuition Costs for a Michigan Resident at the Top Universities

- Brown
- Princeton
- Dartmouth
- Yale
- Chicago
- Harvard
- Stanford
- Duke
- Berkeley
- UM-AA
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.
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

- State Appropriation
- Tuition & Fees
- Other

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

State Appropriation
Tuition & Fees
Other
Changing Mix of General Fund Revenue
FY75 - FY87
Central Michigan University

State Appropriation
Tuition & Fees
Other
Changing Mix of General Fund Revenue
FY75 - FY87
Eastern Michigan University

- State Appropriation
- Tuition & Fees
- Other
Changing Mix of General Fund Revenue
FY75 - FY87
Grand Valley State University

State Appropriation

Tuition & Fees

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

![Bar chart showing the changing mix of general fund revenue from FY75 to FY87. The chart displays the percentage contribution from State Appropriation, Tuition & Fees, and Other sources over the years.]
Changing Mix of General Fund Revenue
FY75 - FY87
Michigan State University

- State Appropriation
- Tuition & Fees
- Other
FY 88-89 Budget Process

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

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

- State Appropriation
- Tuition & Fees
- Other
Changing Mix of General Fund Revenue
FY75 - FY87
Northern Michigan University

State Appropriation
Tuition & Fees
Other
Changing Mix of General Fund Revenue
FY75 - FY87
Oakland University

- State Appropriation
- Tuition & Fees
- Other
Changing Mix of General Fund Revenue
FY75 - FY87
Saginaw Valley State University

- State Appropriation
- Tuition & Fees
- Other

Year (1975-1987)
Changing Mix of General Fund Revenue
FY75 - FY87
Wayne State University

- State Appropriation
- Tuition & Fees
- Other
Changing Mix of General Fund Revenue
FY75 - FY87
Western Michigan University

State Appropriation

Tuition & Fees

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

- State Appropriation
- Tuition & Fees
- Other

Year:

Percentage:
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Changing Mix of General Fund Revenue
FY75 - FY87
"The Little Twelve"