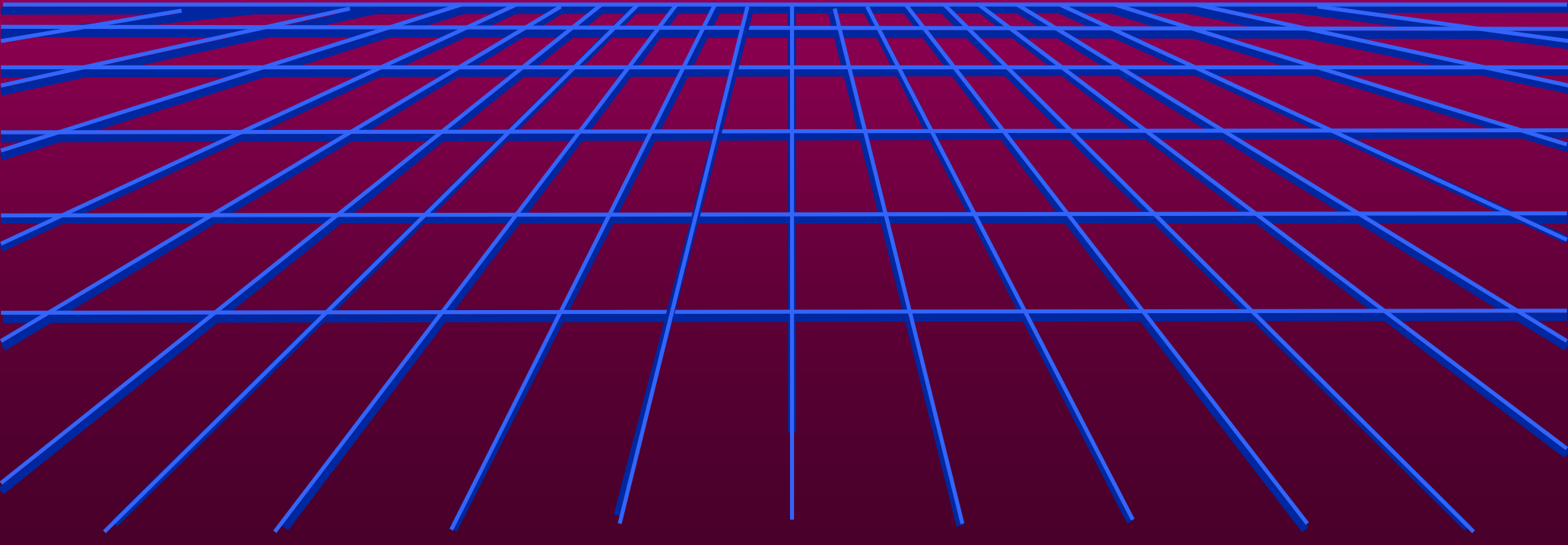


\$\$\$ Money \$\$\$

...How we raise it...

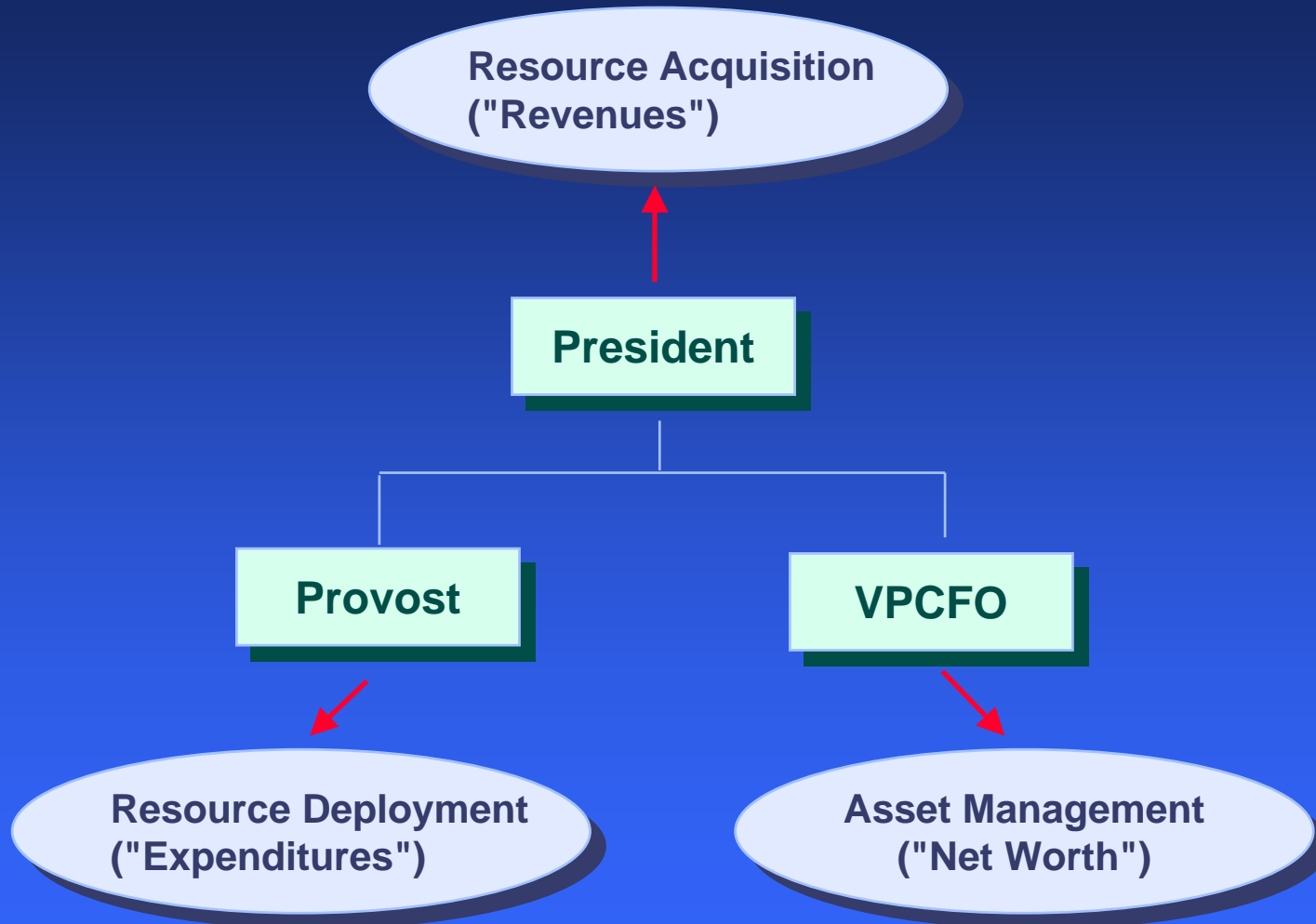
...How we allocate it...

...How we spend it...

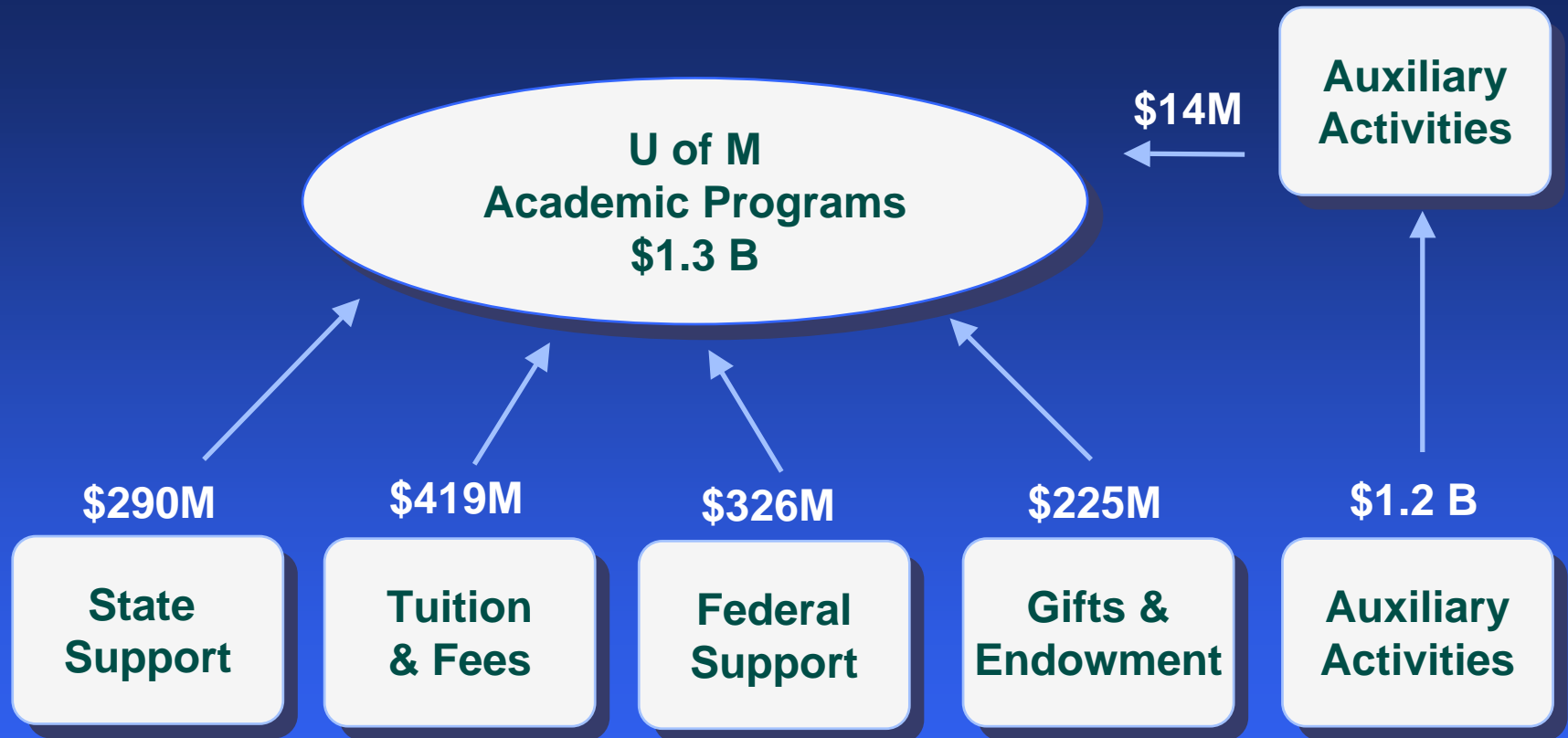


Executive Officer Responsibilities

2



UM Revenue Portfolio (FY95)



- Operating Approp
- Capital Outlay

Tuition
 Instate (33%)
 Outstate (67%)

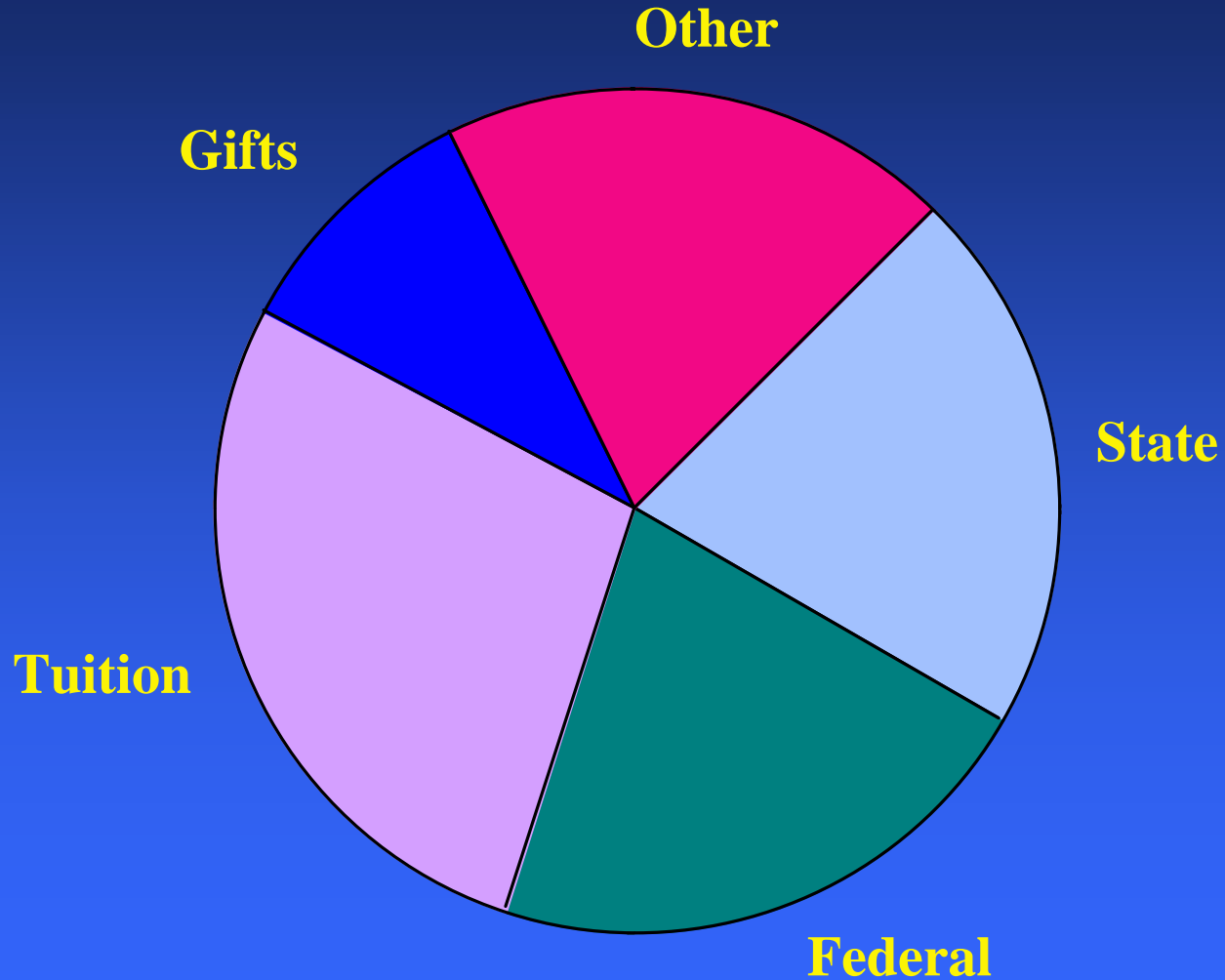
- R&D
- Student Aid

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

- U Hospitals
- Housing
- Intercollegiate Athletics

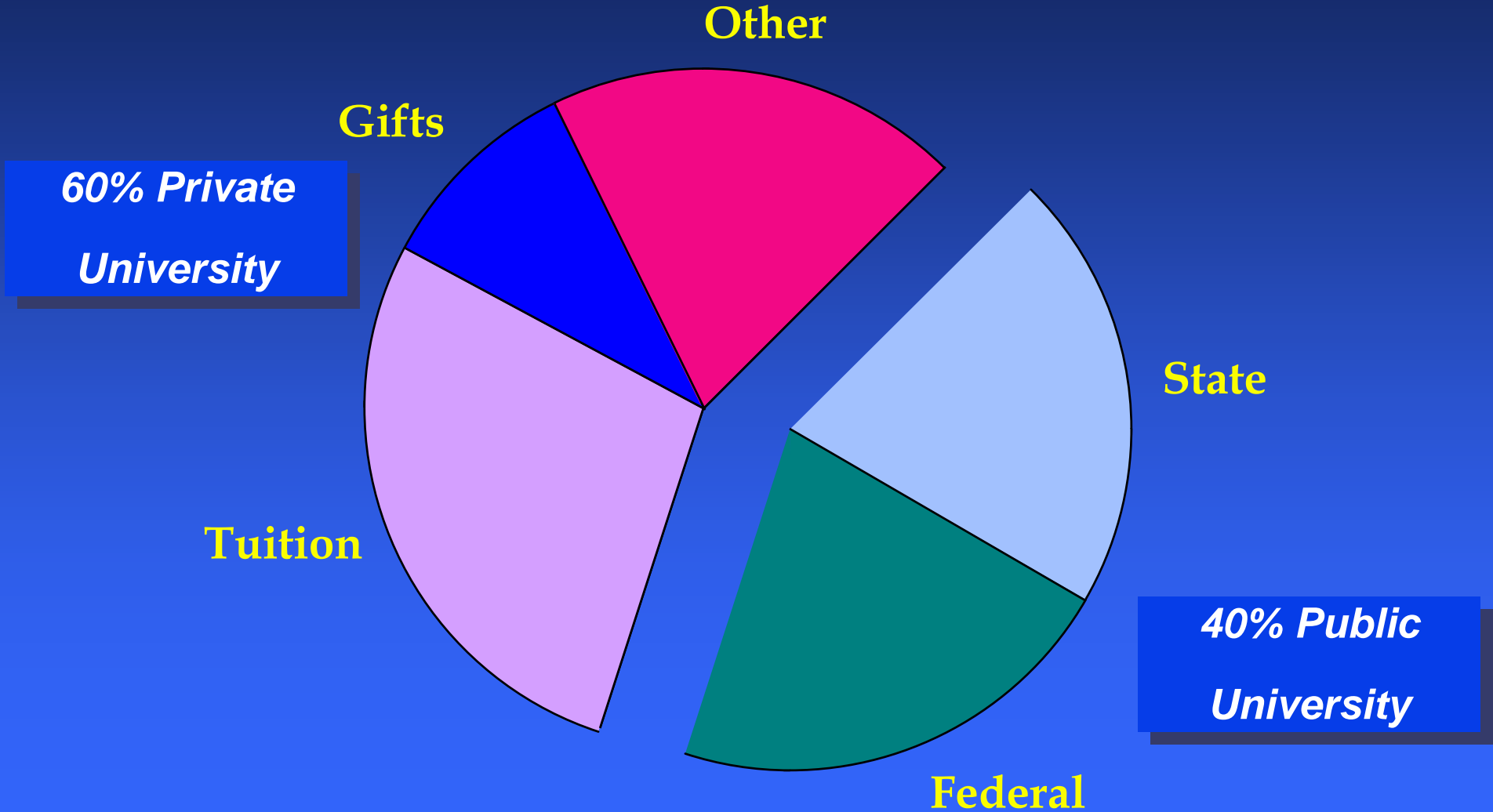
UM Resource Portfolio

(Not including UM Hospitals)



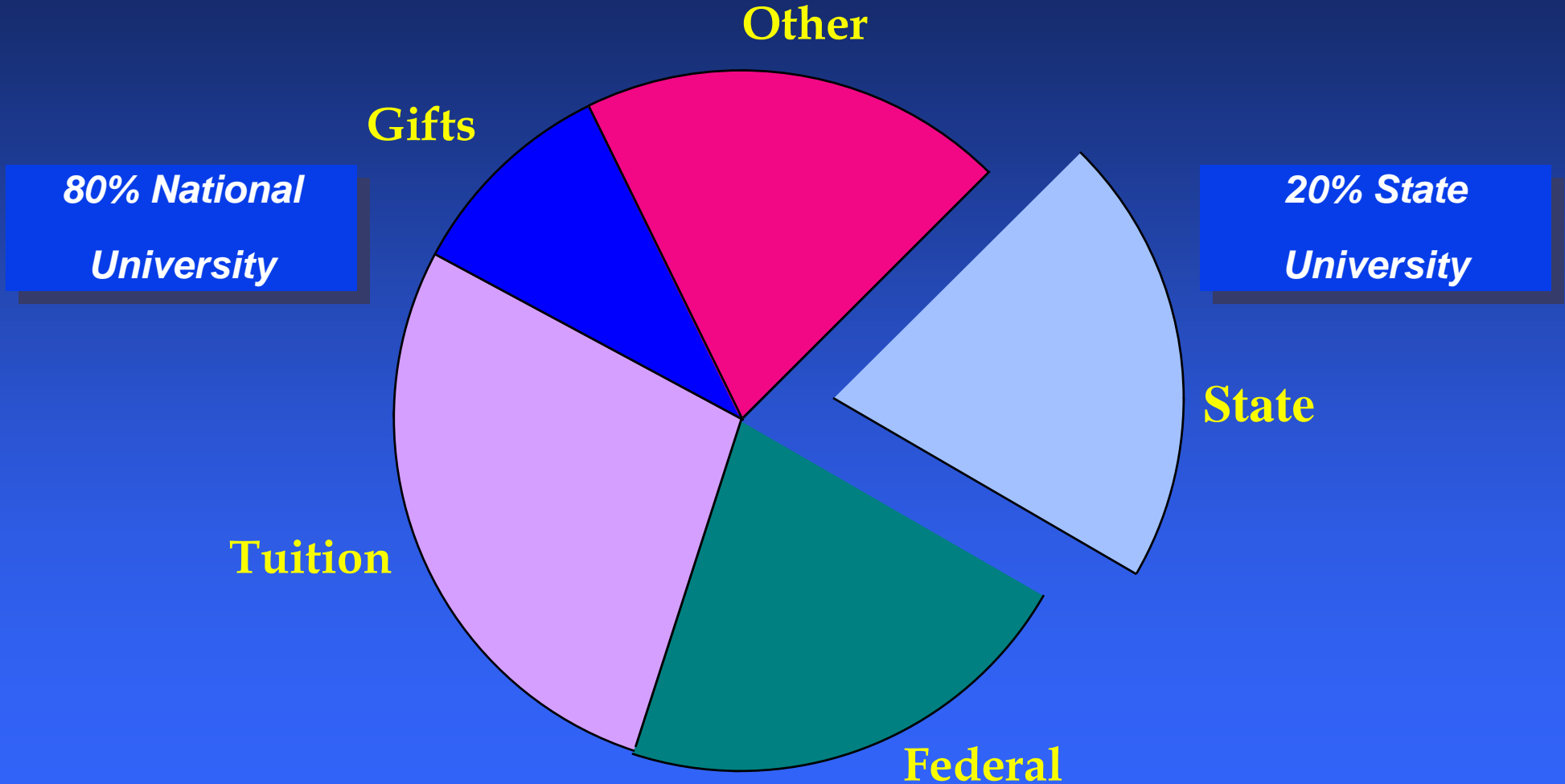
UM Resource Portfolio

(“public” vs. “private”)



UM Resource Portfolio

("state" vs. "national")



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) ¹⁰

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

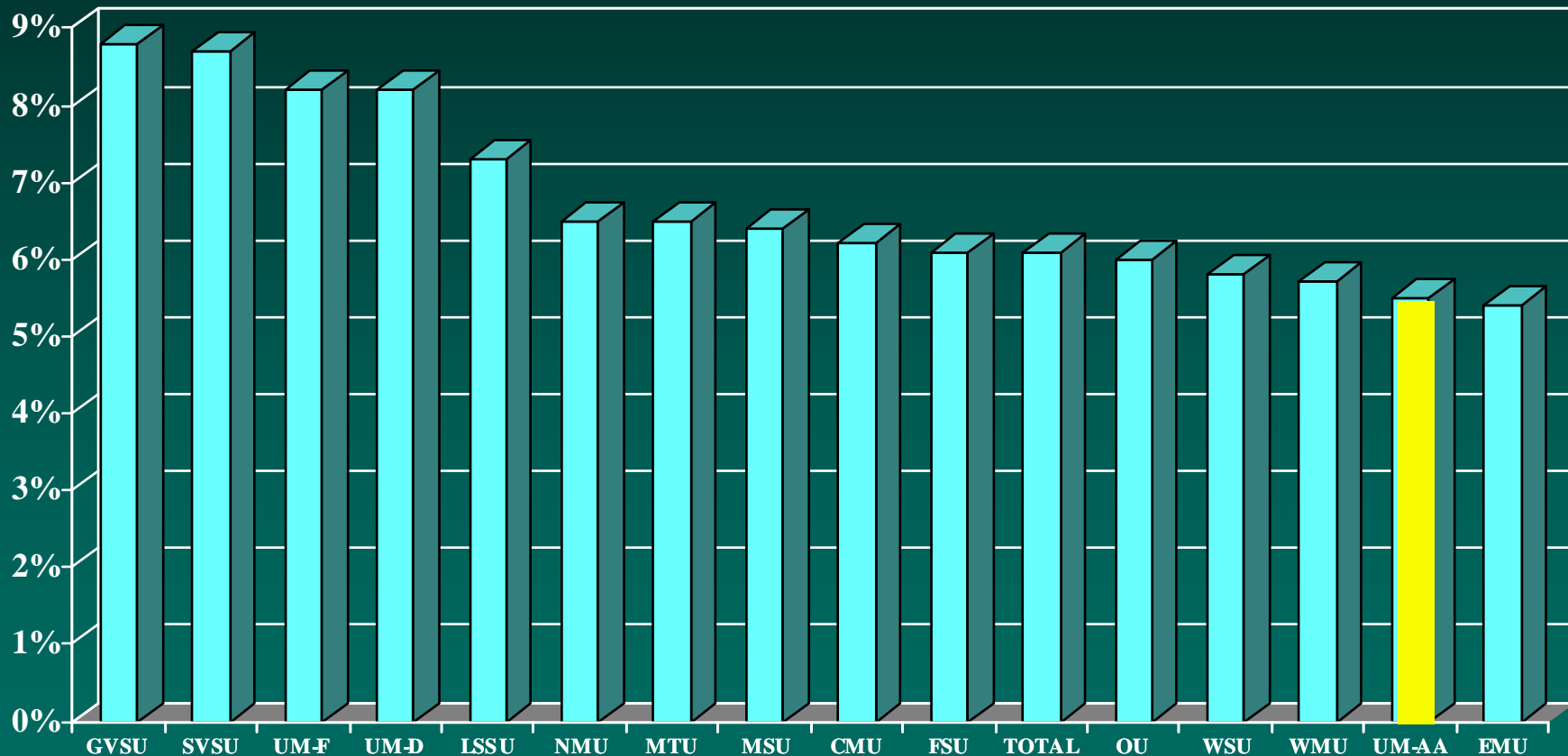
| | <u>National Ranking</u> |
|--|-------------------------|
| Tax Dollars Spent per FTE Student | 37th |
| Higher Ed Appropriations per Capita | 23rd |
| Appropriations as % of Tax Revenue | 21st |
| Appropriations per \$1000 of Personal Income | 29th |
| Annual Increase in State Appropriations | 28th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

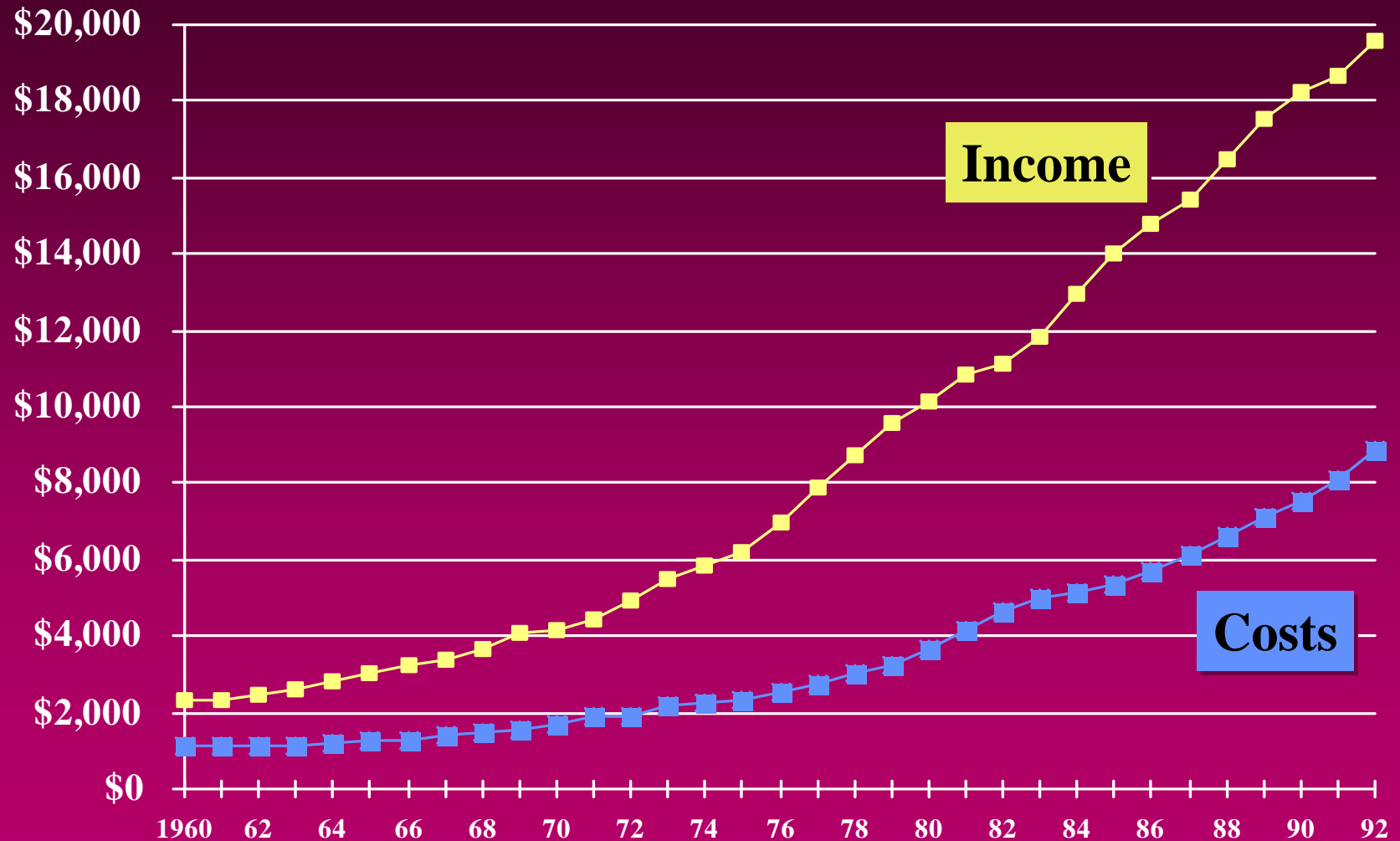
Concerned Constituencies:

- 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



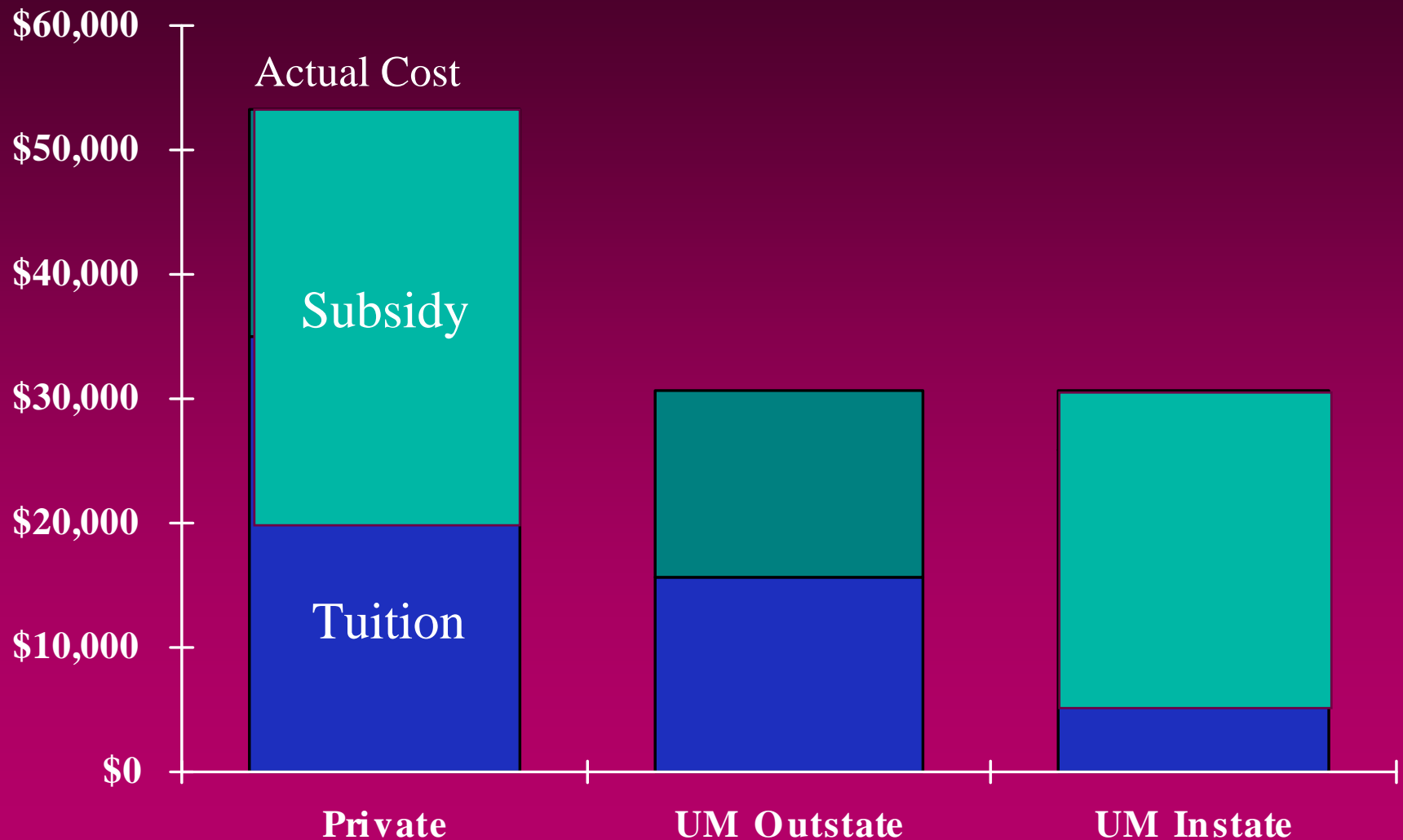
Tuition & Fees



Tuition vs. National Rankings

National Rankings

Tuition "Prices" vs. "Costs"

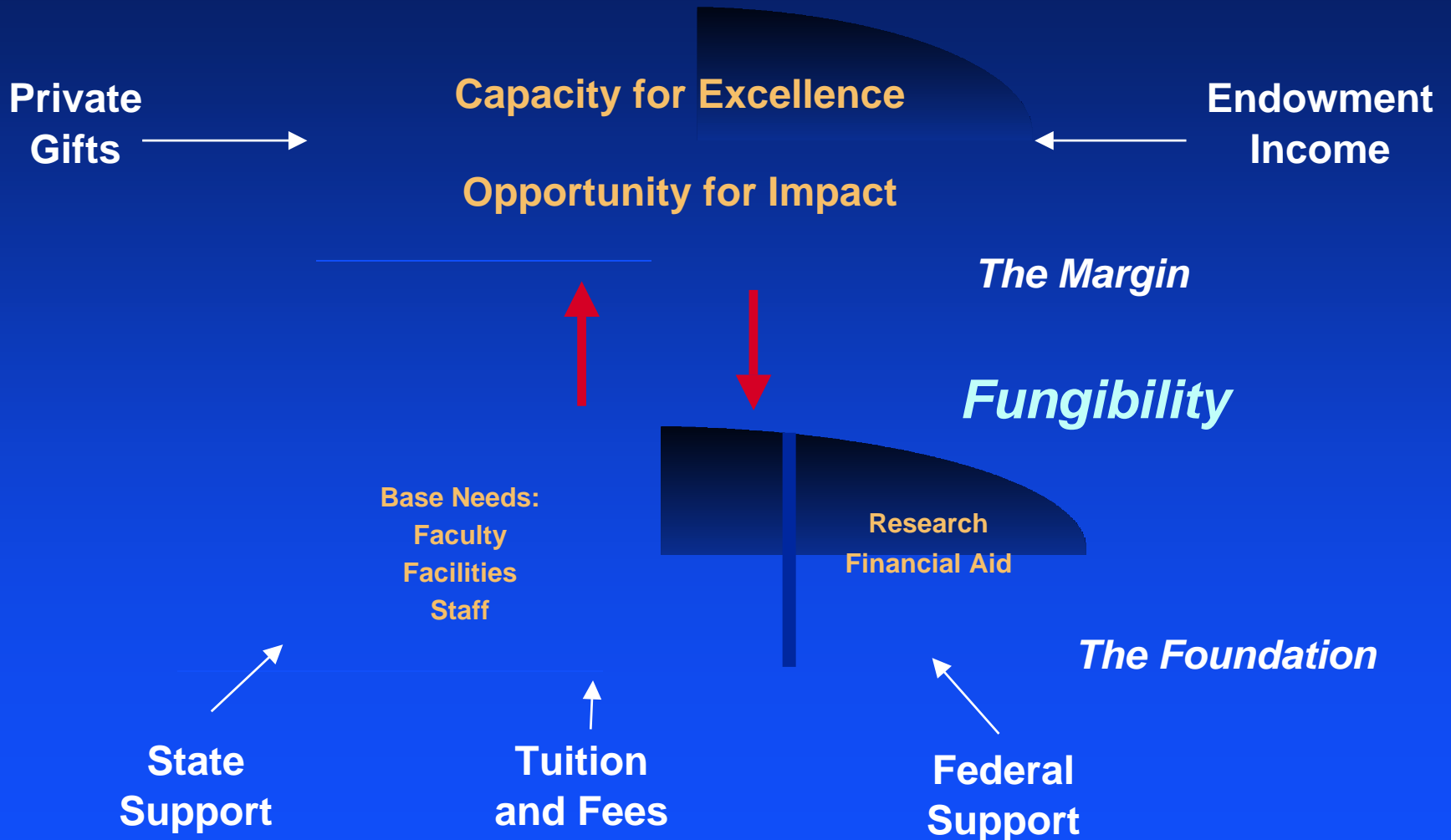


Gifts and Endowment Income

The Importance of Private Support



Flexibility and Fungibility



The Possibility of Strong Private Support

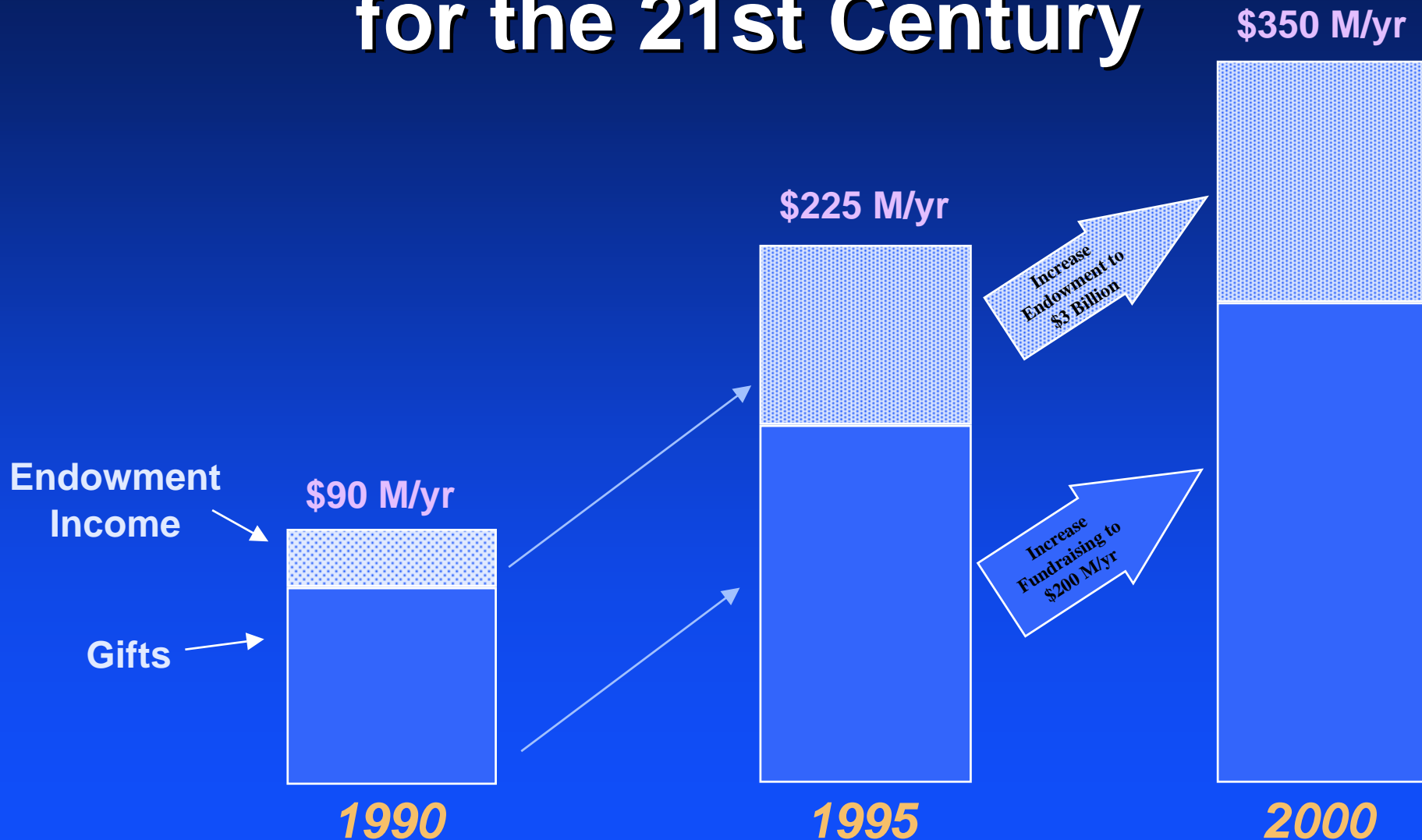
Present Situation:

| | | | |
|--|----------------------|---|---|
| Gifts: Shows good growth...but still far from where it should be | \$160 million | } | \$232 M/yr private support |
| Endowment: \$1.6 billion \implies \$72 million/yr Still low for an institution of this size and quality. | | | |

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

- Hospital subsidy of academic programs at risk as Michigan moves to managed care environment
- University at considerable risk due to changing health care environment

Intercollegiate Athletics

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

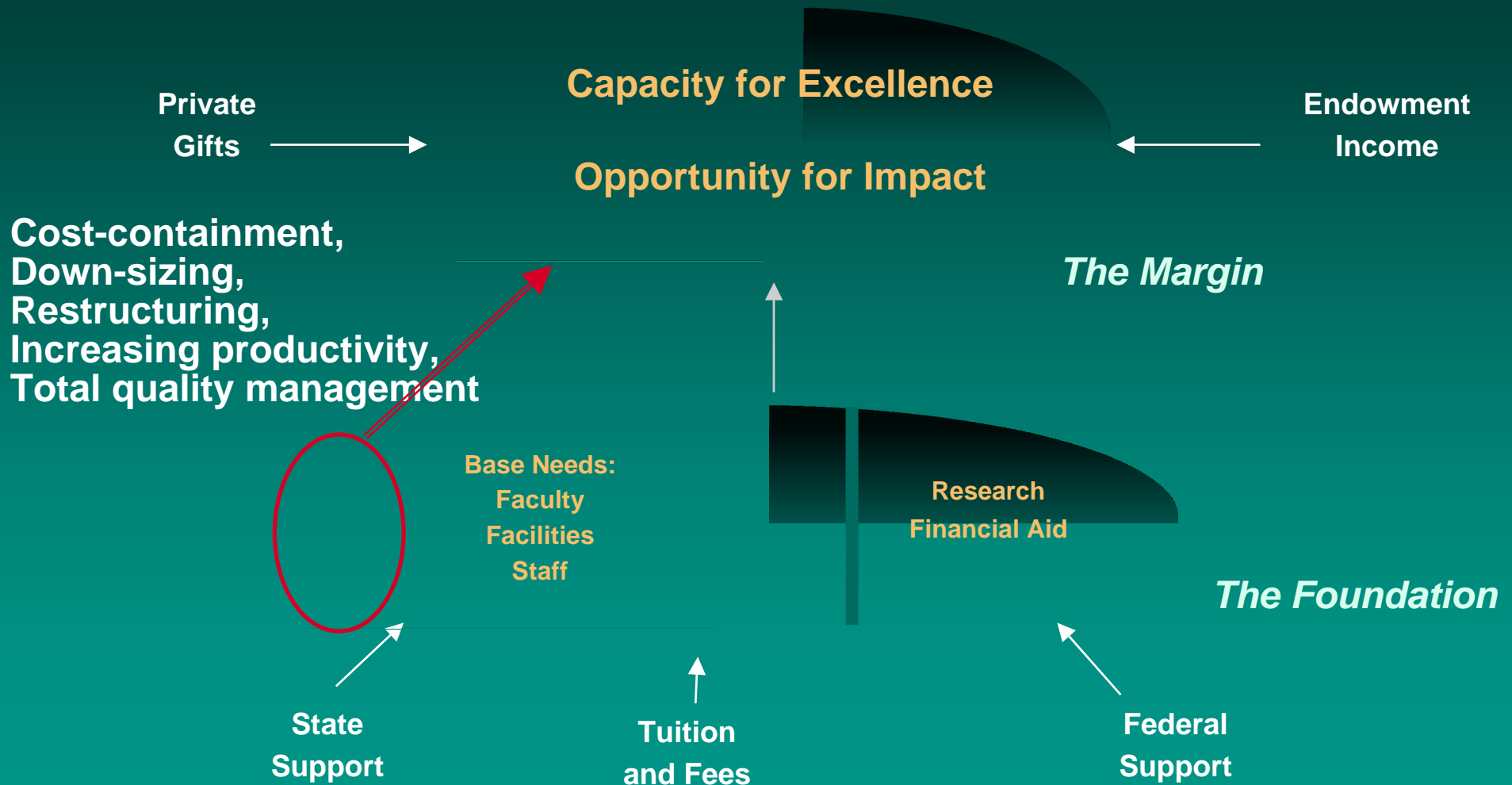
Housing

- 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, ...)

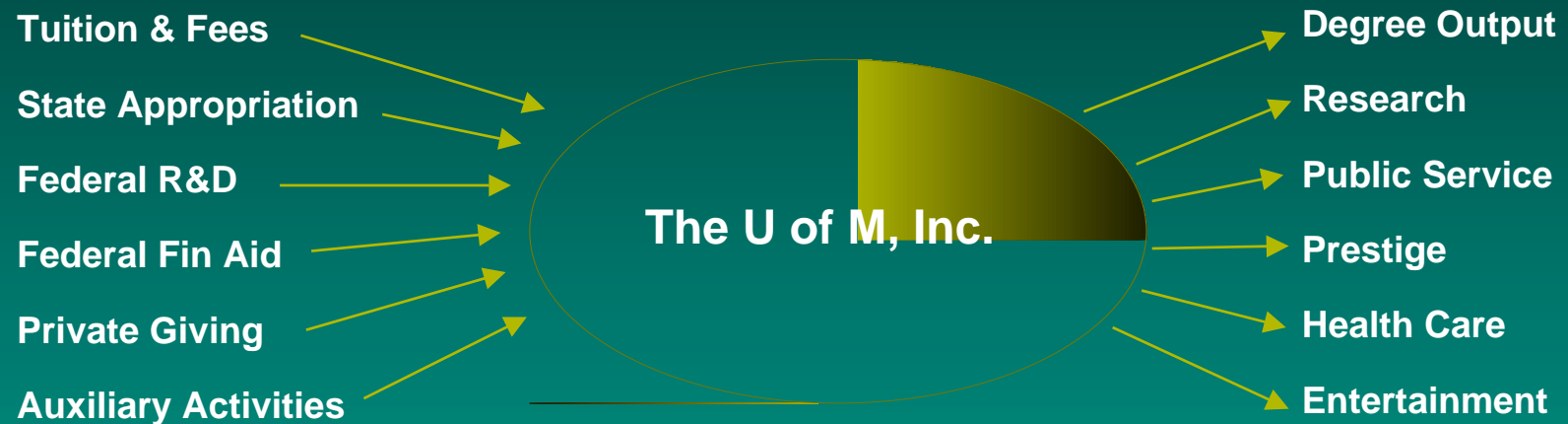
Niche Markets

Seminars for government leaders
International education
Summer language institutes

Alliances

Community colleges
Private colleges

Inputs and Outputs



Inputs

Outputs

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 [†] 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[†]

39

1. Cal Tech
2. Johns Hopkins
3. Harvard

.....

10. Columbia
11. Princeton

.....

14. Duke

.....

20. Carnegie Mellon

.....

- 29. Michigan**

[†] US News & World Report
September 26, 1994

Caveat # 2: The importance of a balanced strategy⁴⁰

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.

