

THE UNIVERSITY OF MICHIGAN-FLINT
Regents Communication

ITEM FOR INFORMATION

SUBJECT: FY 2014 response to the Budget Development Letter from the
Michigan State Budget Office

BACKGROUND:

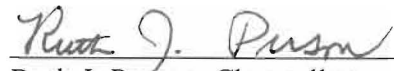
In past years, the university's annual budget request to the state was submitted to the Board of Regents for approval before submitting the request to the State Budget Office.

This year, the State Budget Office changed the process. In late October, all the universities were informed that a formal budget request would not be solicited.

Instead, the universities were to respond in a letter with an assessment of the current year's performance funding metrics and suggestions for modification that could be considered in the development of the state's fiscal 2014 budget recommendation. In addition, the budget office specifically asked for details about efforts to control costs in fiscal 2013 and the university plans for new cost control initiatives in fiscal year 2014 and beyond.

As this year's request was not in the form of a substantive budget request, and given the condensed timing to meet the deadline, we responded with a letter on November 14, 2012, as requested, and provide herein as an item for information.

Respectfully submitted:



Ruth J. Person, Chancellor
University of Michigan-Flint

December 13, 2012

Attachment



November 14, 2012

Mr. John Nixon
State Budget Director
State Budget Office
111 South Capitol
P.O. Box 30026
Lansing, MI 48909

Subject: Fiscal Year 2014 Budget Development

Dear Mr. Nixon:

The University of Michigan-Flint appreciates the opportunity to provide information for consideration in the development of the budget for Fiscal Year 2014.

Funding Formula Status

For the past decade, the public universities in the State of Michigan have seen a significant decline in the level of financial support provided by the State, and today, at the University of Michigan – Flint, state appropriations represent just 19% of the Fiscal Year 2013 General Fund budget compared with 45% - 50% a few years ago. We have been seriously challenged in this funding climate, but have worked assiduously to maintain our commitment to access, diversity, academic excellence and student centeredness through relentless implementation of operational efficiencies.

Consistent with the comments that we have previously shared with the House and Senate fiscal agencies, the University of Michigan-Flint continues to have deep reservations about the formula funding model. Formula funding models often favor standardization at the lowest common denominator, ignore economies of scale, and make flawed assumptions about costs being consistent between institutions. They can provide disincentives to excellence and can steer institutions towards uniformity and away from diversity. We believe strongly that the diversity of scope and mission seen among the State's fifteen public universities is invaluable; it is what enables our universities to meet the State's critical goals for higher education. A formula that undercuts the important differences amongst the public universities will harm rather than help the State.

Specifically, it is critical that the methodology include comparisons of each university to similar institutions. Using the Carnegie classifications and limiting the comparisons to only public institutions allows for Michigan public universities to be measured against their peers.

With regard to the performance metrics implemented with the Fiscal Year 2013 budget, we have the following concerns:

1. While we have reservations regarding the use of performance metrics for purposes of budget development as noted above, we do believe that the same metrics used for the Fiscal Year 2013 budget should be used for several years in order to facilitate performance measurement in a consistent manner. Only after the same measures have been in place for a number of years should changes in the measures used be considered.
2. While we are pleased to receive added funding in Fiscal Year 2013, one of our most critical concerns is that additional funds distributed to universities under performance metrics have not been added to the base budget. These added funds are now part of our operating funds and we are not sure what we can expect from the State in Fiscal Year 2014. This makes the task of budget planning very difficult. We strongly suggest that these funds be added to our base budget and that any added funds using performance metrics for the FY 2014 budget also be added to our base budget.

The University of Michigan-Flint has some unique operating characteristics which we believe are important considerations in evaluating our success in meeting the educational needs of our students:

1. We understand that the State of Michigan has rightfully identified the need to increase the number of state residents with college degrees in order to attract more knowledge-based employment opportunities and help improve Michigan's economy.

The University of Michigan-Flint has been doing its part to achieve this objective by producing larger and larger numbers of graduates in recent years. However, our success is not adequately measured by calculation of the traditional 6-year graduation rate. This is because these measures only count those students who start and finish their degree at the same institution, in most cases remaining continuously enrolled during this period.

At the University of Michigan-Flint, a large number of students transfer in from community colleges after two years and subsequently complete their degrees. A significant number of students also transfer from the University of Michigan-Flint to other institutions and subsequently complete their degrees. We also have a large number of part-time students who take more time to complete their degrees. None of these students are counted in the traditional 6-year graduation rate calculations. Further, the 6-year graduation rate does not reflect the great successes of our graduate and professional students which account for over 15% of our students.

We believe a more appropriate measure of our success is the number of students completing their degrees each year at the University of Michigan-Flint.

2. In recent years, the University of Michigan-Flint has significantly increased the number of students enrolled in its various educational programs, thus expanding higher education access to larger numbers of Michigan residents. Total enrollment in fall 2012 is approximately 8,300 students, up 29% since 2005. This is the 9th consecutive year that enrollment has increased. Graduate student enrollment is also an all-time high of about 1,300 students. Since 1956, the University of Michigan-Flint has graduated more than 32,000 students, the vast majority of whom (over 80 percent) have chosen to live, work, and pay taxes in the State of Michigan.

We believe that increased enrollment should be an important consideration in development of the annual budget.

3. The University of Michigan-Flint currently has the 4th lowest state appropriation per FYES among the 15 Michigan public universities. As noted above, enrollment in fall 2012 is about 8,300 students, up 29% since 2005. Yet our state appropriation does not take into account the cost of educating more students.

We believe the state appropriation per FYES should be considered in the development of the annual budget.

Funding formulas may appear predictable, transparent, and equitable. But they can also have drawbacks and unintended consequences—and they do not and cannot address the more serious problem: the ongoing decline in State appropriations for higher education.

Cost Containment and Institutional Budgeting

In response to declining revenues, the State of Michigan implemented significant reductions in budget appropriations for higher education, including a 15% reduction in the 2013 fiscal year. State appropriations now represent about 19% of UM-Flint's General Fund budget compared with 45%-50% a few years ago. Further, this reduction in state financial support occurred while enrollment at UM-Flint increased from 6,000-6,500 students to about 8,300 students today. Accordingly, tuition-generated revenue has become a more significant part of our budget. The reduced level of state funding support for UM-Flint is a major factor in the Board of Regents' decisions to modestly increase undergraduate tuition and fees. The University of Michigan-Flint raised undergraduate tuition and fees by 3.6% in 2012-2013 and 6.8% in 2011-2012.

In response to reductions in the level of state support, the University of Michigan-Flint has implemented effective cost control strategies. Following are examples of actions we have taken:

- Re-filling only positions deemed critical to the mission of the university
- Larger class sizes

- Reduced course offerings
- Improved energy efficiency
- Higher medical premiums for faculty and staff
- Reduced University contribution toward retiree health benefits
- Elimination of all non-essential travel
- Elimination of administrative support for groups of departments
- Less frequent custodial services
- Reduction in campus daily maintenance services
- Deferral of all but critical repairs and maintenance
- Increased reliance on part-time faculty

Aside from the cost of salaries for our faculty and staff, two of our largest expenses are healthcare and utilities. The University of Michigan instituted higher medical premiums for faculty and staff, which are adjusted annually. Further, the university is actively promoting exercise and healthy eating habits among its employees under the “Mhealthy” initiative, which is an effort to promote healthy living and reduce healthcare costs. The university initiated changes to the cost sharing arrangement for healthcare benefits whereby the university now covers 70% and the employees’ share is 30%. We estimate the impact of the changes in employee healthcare contributions to be approximately \$1.1 million per year. The University also delays eligibility for employer contributions to defined contribution retirement plans to reduce costs for new employees.

Beginning January 1, 2013, the university will institute a new points eligibility system, a reduced university contribution toward the cost of retiree health benefits, and implement a new policy on sharing the increased cost of retiree health benefits. These changes will be phased in over several years and will significantly reduce the cost of retiree benefits.

The University of Michigan-Flint has made significant strides in improving its energy efficiency over the last several years. Our primary efforts in 2012 have focused on campus lighting upgrades, installation of variable frequency drives to air supply unit motors, and installation of more instantaneous water heaters. We have also been working on plans to replace boilers in our Central Energy Plant with new, energy efficient equipment. In 2012 and beyond we are also focusing on the installation of motion and light harvesting sensors. When the latest group of energy projects is completed, we anticipate about \$300,000 in annual savings.

The University of Michigan-Flint is participating in the State of Michigan Higher Education Purchasing Consortium in an effort to leverage purchasing power and reduce our utility expense in the current fiscal year and beyond. We also make strategic purchases of natural gas when market conditions are favorable.

The University of Michigan-Flint is also able to achieve certain cost savings due to its relationship with the main campus in Ann Arbor. One example is our earlier decision to be a client of the University of Michigan-Ann Arbor Library rather than lease and operate our own local turnkey online library catalog, resulting in annual savings of \$65K.

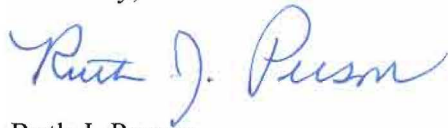
We have also outsourced certain non-core functions in order to reduce operating costs to include the campus bookstore, food service, credit card processing, and lease management.

The University of Michigan-Flint employs a budget system which provides financial incentives to increase enrollment and decentralizes responsibility for financial management decisions to major campus units. Academic units now have a direct financial incentive to grow enrollment.

Annual Financial Report

The annual financial report for the University of Michigan includes the three campuses located in Ann Arbor, Dearborn and Flint.

Sincerely,



Ruth J. Person
Chancellor

DWB/tlb

Enclosure (1)

cc: Gerard Volland, Provost
Vahid Lotfi, Senior Vice Provost
David Lossing, Government Relations Director
Presidents Council
Bill Bowerman, Senate Fiscal Agency
Kyle Jen, House Fiscal Agency