Chapter 10 Finances & Fundraising

Goals
The University budget is built to reflect the institution’s commitments to academic excellence and affordability. Managing the budget so as to meet these dual goals is an ever more complex endeavor. Cost containment is important, both to allow for reallocation of resources due to projected slow revenue growth and to fund new investments in financial aid, faculty, academic programs, research and entrepreneurial programs. Fundraising activity – in support of current activities and to build the endowment – makes vital contributions to the University’s budget.

Narrative
The revenue mix is evolving, especially as the academic functions rely increasingly on tuition and research funding to replace declining revenues from state appropriations. In fact, the FY2017 state appropriation is smaller than the FY1998 appropriation, and that does not take into account the decreased buying power of today’s dollars compared to 1998.

The expenditures mix has not changed much during the past decade. However, with enrollment now about 15 percent higher than 10 years ago, the smaller percentage of expenditures allocated to instruction, research and public service indicates that cost-saving efforts are improving the efficiency of the academic program delivery.

Alumni giving rates are comparable to many public universities. Nevertheless, the institution is making efforts to boost the number of alumni donors.

In November 2013, the University officially launched the Victors for Michigan fundraising campaign with a goal of $4 billion. Through June 30, 2015, donors have made gifts and pledges totaling $2.9 billion.

The University manages its endowment to meet donors’ expectations that their gifts will provide support to the University in perpetuity. The objective is to maintain and enhance the value of endowment gifts and to secure their future purchasing power.

For More Information
Cost Cutting & Budget Update (publicaffairs.vpcomm.umich.edu/key-issues/cost-cutting-budget-update/)
U-M Budgeting Documents, Office of the Provost (provost.umich.edu/budgeting/budget.html)
U-M Endowment Q&A (publicaffairs.vpcomm.umich.edu/key-issues/university-of-michigan-endowment/)
Leaders & Best (leadersandbest.umich.edu) (U-M Giving web home)

Chart updated since the August 2016 edition.

Charts in Chapter 10
10.1.1 Breakout of FY2017 General Fund Budget for the Ann Arbor campus.
10.1.2 General Fund Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2007-17.
10.1.3 Breakdown by Funds of Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2007-17.
10.3 FY2002 State Appropriation Adjusted for Inflation and Projected Forward to Maintain Constant Value, Compared to Actual Annual State Appropriations, FY2002-17.
10.4.2 State Appropriations per Full-Time-Equivalent (FTE) Student to the U-M and AAU Institutions, FY2014.
10.5 Total Gifts to the University, by Gift Type, FY2005-15.
10.6.1 Total Value of U-M Endowment, Ann Arbor Campus, Adjusted for Inflation, 2006-16.
Two-thirds of the U-M’s annual General Fund budget directly supports academic activities.

10.1.1 Breakout of FY2017 General Fund Budget for the Ann Arbor campus.

67.7 cents of each dollar goes to academic activities: Instruction, Academic Advising, Libraries, Museums.

11.7 cents goes to administrative services: Admissions, Budgeting and Accounting, Central Human Resources, Central Information Technology, Legal Services.

10.9 cents goes to facilities and risk management: Plant Operations, Utilities, Insurance, Public Safety.

9.7 cents goes to centrally awarded financial aid.

SOURCE: U-M Office of Executive Vice President and Chief Financial Officer.

Note: total may not sum to 100 percent due to rounding.

10.1.2 Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2007-17.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and Fees</td>
<td>777,367</td>
<td>840,566</td>
<td>894,487</td>
<td>948,461</td>
<td>1,015,952</td>
<td>1,090,404</td>
<td>1,156,647</td>
<td>1,217,808</td>
<td>1,277,842</td>
<td>1,308,819</td>
<td>1,395,166</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td>170,560</td>
<td>164,710</td>
<td>171,569</td>
<td>180,191</td>
<td>212,467</td>
<td>218,291</td>
<td>211,616</td>
<td>219,303</td>
<td>213,874</td>
<td>215,799</td>
<td>226,543</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>21,325</td>
<td>22,230</td>
<td>12,830</td>
<td>9,785</td>
<td>9,678</td>
<td>9,603</td>
<td>7,820</td>
<td>7,920</td>
<td>8,020</td>
<td>9,700</td>
<td>9,595</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>1,295,048</td>
<td>1,347,661</td>
<td>1,408,794</td>
<td>1,455,010</td>
<td>1,553,245</td>
<td>1,587,037</td>
<td>1,649,140</td>
<td>1,724,140</td>
<td>1,794,910</td>
<td>1,833,749</td>
<td>1,939,943</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure Budgets by Unit</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools and Colleges</td>
<td>744,999</td>
<td>779,497</td>
<td>812,445</td>
<td>821,383</td>
<td>890,861</td>
<td>910,684</td>
<td>959,038</td>
<td>994,968</td>
<td>1,018,185</td>
<td>1,037,508</td>
<td>1,092,817</td>
</tr>
<tr>
<td>University Academic Units</td>
<td>47,715</td>
<td>49,475</td>
<td>57,640</td>
<td>59,294</td>
<td>59,543</td>
<td>60,468</td>
<td>62,000</td>
<td>63,995</td>
<td>66,003</td>
<td>67,841</td>
<td>69,059</td>
</tr>
<tr>
<td>Research Units</td>
<td>3,608</td>
<td>4,305</td>
<td>4,116</td>
<td>3,158</td>
<td>4,314</td>
<td>4,969</td>
<td>4,943</td>
<td>4,779</td>
<td>3,326</td>
<td>3,719</td>
<td>4,114</td>
</tr>
<tr>
<td>Academic Program Support</td>
<td>41,987</td>
<td>49,233</td>
<td>58,328</td>
<td>70,592</td>
<td>81,860</td>
<td>62,991</td>
<td>63,548</td>
<td>69,073</td>
<td>79,912</td>
<td>78,215</td>
<td>98,783</td>
</tr>
<tr>
<td>Capital Renewal Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,507</td>
<td>16,566</td>
<td>30,300</td>
<td>41,894</td>
<td>44,905</td>
<td>46,064</td>
<td>47,693</td>
</tr>
<tr>
<td>Executive Officer and Service Units</td>
<td>230,229</td>
<td>233,298</td>
<td>234,949</td>
<td>238,196</td>
<td>240,365</td>
<td>245,712</td>
<td>248,989</td>
<td>256,646</td>
<td>259,499</td>
<td>265,767</td>
<td>275,801</td>
</tr>
<tr>
<td>North Campus Research Complex</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,341</td>
<td>15,324</td>
<td>20,342</td>
<td>6,888</td>
<td>12,298</td>
<td>14,403</td>
<td>16,462</td>
<td>15,006</td>
</tr>
<tr>
<td>University Items</td>
<td>135,590</td>
<td>132,795</td>
<td>134,723</td>
<td>133,254</td>
<td>131,050</td>
<td>128,665</td>
<td>119,318</td>
<td>125,232</td>
<td>122,545</td>
<td>124,376</td>
<td>121,376</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>1,295,048</td>
<td>1,347,661</td>
<td>1,408,794</td>
<td>1,455,010</td>
<td>1,553,245</td>
<td>1,587,037</td>
<td>1,649,140</td>
<td>1,724,140</td>
<td>1,794,910</td>
<td>1,833,749</td>
<td>1,939,943</td>
</tr>
</tbody>
</table>

Table entries are dollars in thousands.

SOURCE: University of Michigan Office of Budget and Planning.
In addition to the General Fund, the U-M Ann Arbor operating budget projects revenues and expenditures for three additional funds: Designated, Expendable Restricted, and Auxiliary Activities.

### 10.1.3 Breakdown by Funds of Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2007-17.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>1,295,048</td>
<td>1,347,661</td>
<td>1,408,794</td>
<td>1,455,010</td>
<td>1,553,245</td>
<td>1,587,037</td>
<td>1,649,140</td>
<td>1,724,140</td>
<td>1,794,910</td>
<td>1,833,749</td>
<td>1,939,943</td>
</tr>
<tr>
<td>Designated</td>
<td>119,750</td>
<td>140,075</td>
<td>143,420</td>
<td>134,770</td>
<td>136,270</td>
<td>137,490</td>
<td>137,540</td>
<td>143,190</td>
<td>172,489</td>
<td>195,081</td>
<td>196,170</td>
</tr>
<tr>
<td>Expendable</td>
<td>881,390</td>
<td>879,590</td>
<td>898,481</td>
<td>969,709</td>
<td>1,053,733</td>
<td>1,110,109</td>
<td>1,094,334</td>
<td>1,097,197</td>
<td>1,054,926</td>
<td>1,157,947</td>
<td>1,204,451</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary</td>
<td>2,392,303</td>
<td>2,415,498</td>
<td>2,617,270</td>
<td>2,646,668</td>
<td>2,838,824</td>
<td>2,932,963</td>
<td>3,198,411</td>
<td>3,406,856</td>
<td>3,593,864</td>
<td>3,867,754</td>
<td>4,132,188</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>4,688,491</td>
<td>4,782,824</td>
<td>5,067,955</td>
<td>5,206,156</td>
<td>5,582,073</td>
<td>5,767,599</td>
<td>6,079,425</td>
<td>6,371,383</td>
<td>6,616,189</td>
<td>7,054,531</td>
<td>7,472,752</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>1,295,048</td>
<td>1,347,661</td>
<td>1,408,794</td>
<td>1,455,010</td>
<td>1,553,245</td>
<td>1,587,037</td>
<td>1,649,140</td>
<td>1,724,140</td>
<td>1,794,910</td>
<td>1,833,749</td>
<td>1,939,943</td>
</tr>
<tr>
<td>Designated</td>
<td>119,750</td>
<td>140,075</td>
<td>143,420</td>
<td>134,770</td>
<td>136,270</td>
<td>137,490</td>
<td>137,540</td>
<td>143,190</td>
<td>172,489</td>
<td>195,081</td>
<td>196,170</td>
</tr>
<tr>
<td>Expendable</td>
<td>881,390</td>
<td>879,590</td>
<td>898,481</td>
<td>969,709</td>
<td>1,053,733</td>
<td>1,110,109</td>
<td>1,094,334</td>
<td>1,097,197</td>
<td>1,054,926</td>
<td>1,157,947</td>
<td>1,204,451</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary</td>
<td>2,335,475</td>
<td>2,359,287</td>
<td>2,581,993</td>
<td>2,641,130</td>
<td>2,773,513</td>
<td>3,015,247</td>
<td>3,239,005</td>
<td>3,495,268</td>
<td>3,638,271</td>
<td>3,937,359</td>
<td>4,062,275</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>4,631,663</td>
<td>4,726,614</td>
<td>5,032,687</td>
<td>5,200,618</td>
<td>5,516,761</td>
<td>5,849,883</td>
<td>6,120,019</td>
<td>6,459,795</td>
<td>6,660,596</td>
<td>7,113,836</td>
<td>7,387,839</td>
</tr>
</tbody>
</table>

Table entries are dollars in thousands.

**SOURCE:** University of Michigan Office of Budget and Planning, Office of Financial Analysis.

The total budget of the University of Michigan Ann Arbor is allocated to a wide range of activities, including instruction, research, administration, health care, student financial aid, student housing and athletics, among others. The revenue and expenditure budgets are divided into four main funds, which track broad campus activity groups.

The General Fund is used for operating purposes to support instruction, research, and public service; academic and other student services; operation and maintenance of the university’s physical plant; and university-funded financial aid. Revenues for the General Fund come from State of Michigan appropriations, student tuition and fees, indirect cost recovery tied to sponsored grants and contracts, and other income. (See Table 10.1.2 for a breakdown of General Fund revenues and expenditures.)

The Designated Fund is similar to the General Fund in that both support the academic mission of the university, although the Designated Fund revenue sources differ substantially from those for General Fund. The major sources of income in the Designated Fund are departmental revenue for continuing education (non-degree granting), conferences and seminars, royalty income, endowment distribution from unrestricted endowments, publishing of teaching and research data, unrestricted gifts (President only), and investment income from the University Investment Pool for cash held in this fund.

The Expendable Restricted Fund includes spending for research and other sponsored activities, such as research, financial aid, instruction, etc., with the funds originating from the federal government, other governmental units, non-federal agencies, foundations and charitable organizations, gifts, and endowment distributions. These funds are restricted and may only be used for expenditures relating to the specific purposes as stated by the sponsor or donor.

The Auxiliary Activities Fund supports activities that charge customers for goods and services provided. Auxiliary units include the U-M Hospital and Health Centers, student housing, intercollegiate and varsity athletics, and parking.
The state appropriation's share of the General Fund has declined steadily and dramatically since 1970.

10.2 Relative Contributions to the University's General Fund by State Appropriations, Tuition and Fees, and Other Revenues\(^1\), FY1970-2017.

The state appropriation for FY2017 is $308.6 million, and provides 16 percent of the General Fund revenues for the year. In FY1970, the state appropriation represented 64 percent of the Ann Arbor campus General Fund. By contrast, tuition and required fees for FY2016 are 72 percent of the General Fund; in FY1970, tuition was 26 percent of the General Fund. The crossover year was FY1991, when the State Appropriation and Tuition each provided 45 percent of the General Fund revenues.

\(^1\) Prior to FY1969, indirect cost recovery was not included in the General Fund.
The gap between the purchasing power for the FY2002 state appropriation and the actual state appropriation has grown to $168 million as of FY2017 ($10 million less than the peak gap year of FY2013).

10.3 FY2002 State Appropriation Adjusted for Inflation and Projected Forward to Maintain Constant Value, Compared to Actual Annual State Appropriations, FY2002-17.

In actual dollars, the state appropriation for the Ann Arbor campus peaked at $363.56 million in FY2002. Factoring in inflation, the 2017 state appropriation for the Ann Arbor campus needed to be $464 million to equal the 2002 appropriation’s purchasing power. The actual FY2017 state appropriation is $308.6 million.

For historical context, the FY2017 state appropriation of $308.6M is $5.9M less than the actual FY1998 appropriation of $314.5M.

SOURCE: University of Michigan Financial Reports.

2 Based on the estimated Detroit Consumer Price Index for 2017.
State support per U-M enrolled student, when adjusted for inflation, is 25% lower than a decade ago.


This chart is based on the simple calculation of dividing the actual State of Michigan inflation-adjusted appropriation to the Ann Arbor campus by the official fall semester third-week enrollment count. The 2017 figure is the projected Fall 2017 enrollment; the chart will be updated once the official Fall enrollment is reported.

3 Based on the estimated Detroit Consumer Price Index for FY2017.
Three-quarters of AAU public universities receive more state support per full-time equivalent student than the U-M.

10.4.2 State Appropriations per Full-Time-Equivalent (FTE) Student to the U-M and AAU Public Institutions, FY2014.

The calculation of full-time-equivalent students for each school uses IPEDS methodology applied to Fall 2013 enrollment. Data on state appropriations for three AAU institutions – Pennsylvania State University, University of Colorado-Boulder and University of Pittsburgh – is not available for FY2014.

SOURCE: Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education.
Gifts are an important source of revenue that supports many current and future academic activities and campus facilities.

10.5 Total Gifts to the University, by Gift Type, FY2005-15.

A new major fundraising campaign, Victors for Michigan, was officially launched on November 7, 2013. The campaign goal is $4 billion, the largest goal in the history of public education. As of June 30, 2015, donors have made gifts and pledges totaling $2.9 billion.

The University’s previous capital campaign – The Michigan Difference – raised $3.1 billion in gifts and pledges from more than 364,000 donors between July 2000 and December 2008.

SOURCE: U-M Office of Development

4 “University launches Victors for Michigan campaign to raise $4 billion,” The University Record, Nov. 7, 2013.

The total value of the University of Michigan-Ann Arbor endowment has more than recovered from the losses experienced during the recession that started in 2008.

The value of the endowment funds shown in the chart is the value on June 30 of each year.

The decline in value for 2009 over 2008 corresponds to the sharp losses sustained by the stock and bond markets and recession that ensued, but the value has been reversed.

The University of Michigan’s endowment is essential to sustaining academic quality. Endowment funds are invested for the long-term, and earnings from those investments provide a guaranteed source of income to support in perpetuity professorships, student scholarships, innovative programs and learning opportunities. Donors who contribute to the endowment do so because they want to support the University and positively impact U-M students and academic programs now and in the future.


6 Based on 2016 U.S. Consumer Price Index.
The U-M has the largest endowment among its public university peers.


The U-M endowment market value fell by 2.1 percent from FY2015 to FY2016. The average growth of North American college endowment funds fell by 1.9 percent during the 2015-16 budget year, according to an annual survey of 805 institutions by Commonfund and the National Association of College and University Business Officers (NACUBO).

Data for public universities are shaded in yellow; private university data are shaded in blue.

7 The change in market value does NOT represent the rate of return for the institution’s investments. Rather, the change in the market value of an endowment from FY 2015 to FY 2016 reflects the net impact of withdrawals to fund institutional operations and capital expenses; the payment of endowment management and investment fees; additions from donor gifts and other contributions; and investment gains or losses.
