

## Executive Summary

The University of Michigan continues its focus on academic excellence and affordability in FY2019. The FY2019 budget recommendation seeks to leverage a modest state appropriation increase of 2.0 percent and our ongoing campuswide cost-containment to make targeted, strategic investments in academic excellence.

Academic Excellence. Our FY19 budget proposes key investments in the undergraduate experience, hiring and retention of faculty, in competitive pay for lecturers, and in additional priorities that increase excellence campuswide.

Accessibility. The budget recommendation allocates additional aid funds for the Go Blue Guarantee. It also continues our commitment to provide all in-state students with a financial aid package that meets 100 percent of demonstrated financial need, as well as our policy of meeting full demonstrated financial need for out-of-state students from families with incomes of up to about \$90,000 a year.

Fiscal Discipline. We continue our unrelenting focus on cost containment. In addition to finding low-priority areas to discontinue, we promote strategic use of philanthropy to relieve general fund expenses. We also support enhancing our streams of alternative revenue.

Our budgetary goals are attainable with a modest tuition increase. Our proposed tuition plan is as follows: An undergraduate tuition increase of 2.9 percent – \$436 a year in most cases – for in-state students. The increase for out-of-state undergraduate students would be 3.9 percent. Tuition for most graduate programs would increase 3.3 percent. A limited number of differential increases also are recommended for specific programs.

## Introduction & Context

The 2019 fiscal year general fund budget recommendation for University of Michigan-Ann Arbor maintains our longstanding focus on academic excellence, access and affordability, and fiscal discipline.

The context of the fiscal year 2019 budget is shaped by several factors:

FY19 State funding. We are grateful for expected state funding of 2 percent over FY18 levels; the increase helps the university to meet escalating mandatory cost increases and inflationary pressures on the cost of supplies.

Growth in enrollment. Enrollment in FY19 is projected to grow modestly at the undergraduate level. We also expect graduate enrollment to increase due to high demand. This growth requires some new investments to accommodate student needs.

The successful launch of the Go Blue Guarantee. The Go Blue Guarantee, which promised free tuition for students from families at or below the state median income, took

effect in January 2018 for current students. In fall 2018, UM will enroll its first new freshmen who applied under this promise.

Uncertainty about LEO contract costs. The most recent Lecturer Employee Organization (LEO) contract expired in May 2018 and the terms of the new contract are not yet settled. Current negotiations suggest the final approved contract will result in a substantial increase in compensation costs.

Ongoing caution about federal policies and funding. Research funding and the associated indirect cost recovery is projected to be up in FY19, but ongoing support for federal agencies continues to be a matter of contention in Washington. Federal policies related to visas and immigration also create potential vulnerabilities in our international enrollment.

Strategic funding for new initiatives. New investment remains a budget priority. We have identified key areas for new and increased funding that will continue our drive towards increasing levels of academic excellence. Units will continue to rely on their long practice of reallocating and finding alternative revenue to fund their highest priority initiatives.

### **Investments in Academic Excellence**

UM stands as one of the world's leading teaching and research universities and an exemplar public institution nationally. Each year our budget reflects the belief that we have a responsibility to preserve our stature by pursuing opportunities for strategic investment that foster excellence. In an era of increased focus on affordability, we may be more tightly focused in our priorities, but we do not back away from our commitment to innovate and pursue increasing levels of academic excellence and impact.

The FY2019 budget recommendation therefore includes resources for several major initiatives that further enhance the university's academic excellence. Foremost among them are:

- Investments in undergraduate education
- Additional faculty investments, including competitive compensation for lecturers
- Other critical investments in excellence

We discuss below the impetus for several initiatives and share examples of new and ongoing investments.

#### Investments in Undergraduate Education

Augmented, Virtual, and Mixed Reality (AVMR). One of the university's central investments is for Augmented, Virtual, and Mixed Reality (AVMR) in the curriculum. AVMR uses advanced technology to create immersive learning experiences. AVMR can give ideas and concepts shape and form, shifting the way that knowledge is captured and

taught. Students can hold a virtual molecule in their hand, fly through a simulated storm cell, or visit a recreated historical site from the ancient world. This initiative will design specific courses, develop evaluation models, and enable further expansion of the model across our curriculum.

Civil Discourse & Public Engagement. The Ford School of Public Policy is launching several new initiatives. Civil Discourse aims to promote principles of thoughtful intellectual discussion. Through coursework, events and training, students will increase their ability to engage respectfully, bridge divides, and reach common ground across the spectrum of political thought. The Public Engagement initiative will increase opportunities for students to directly apply their coursework to meet societal needs, including policy and advocacy, educational outreach, and media relations.

Quantitative/Computational Social Science (QCSS) Program. The College of Literature, Science, and the Arts is launching the QCSS program to develop student proficiency in data-intensive analysis. A fast-growing and high-demand area of scholarship, computational social science harnesses data to model, simulate, and analyze social phenomena. The program leverages the breadth and depth of the university's top-ranked social science departments. Coursework combined with co-curricular experiences will position graduate and undergraduate students for bright futures in data-intensive careers in academe or the public and private sectors.

Student Support. The university continues to offer a broad array of services to promote student success. They ensure students persist and graduate on time with a college experience that reflects involvement, personal and professional development, and academic accomplishments. These services include support for engaged learning experiences on- and off-campus, mentoring, career services, writing support, science learning, and services tailored to populations with specialized support needs such as international students, veterans, and those who are the first in their family to attend college. The university has made continued investments in successful programs such as the M-STEM Academy, that helps ensure students from under-resourced secondary schools make a successful transition to UM and reach their full potential in pursuit of their goals.

#### Investments in faculty

Faculty hiring to keep pace with growth. UM projects increased enrollment in FY19. This growth is driven by several factors, including the continuation of our larger freshman class (an increased target was approved in FY2017), and strong demand for masters programs. As enrollment grows, the university must also add to its faculty ranks to maintain appropriate class size. Six units will be adding faculty to contribute to the strength and vitality of scholarship on campus, maintain a favorable student-faculty ratio and preserve student access to the exceptional teaching, scholarship and mentoring they expect at UM.

Faculty retention. Our world-class faculty are key to UM's excellence. They are highly sought-after by other institutions, particularly in high-demand and high-growth areas like engineering and computer science. Increasingly we also compete with industry for top faculty scholars in these fields as well as in business and artificial intelligence. The university must maintain its competitive compensation and research facilities for faculty, and be prepared to offer strong retention packages as necessary.

Lecturer compensation. The university is currently in negotiations with LEO, the bargaining unit that represents the 1,065 lecturers on the Ann Arbor campus. Lecturers play an essential role in the university's educational mission, and we are pleased that the renewed contract will provide an opportunity for us to further align lecturer compensation with our commitment to excellence in teaching. The university is budgeting for a substantial increase in compensation costs. The final cost of the contract remains unknown at the time of this budget recommendation.

#### Other critical components of excellence

The proposed FY2019 budget includes additional investments in ongoing programs and initiatives that cross broad categories and are judged essential for our excellence.

Diversity, equity and inclusion (DEI). DEI is a core component of the university's strategy to achieve its overarching goal of academic excellence. We believe that a diverse and inclusive community is necessary to produce excellent scholarship, teach effectively, and enhance the public good. It is based on this strong belief, backed up by rigorous research both here and elsewhere, that we continue to make strategic, targeted investments in DEI programs and initiatives in FY19. For example, the College of Pharmacy is adopting a proven "Profiles for Success" program for attracting and preparing underrepresented students for professional health fields. We are also providing additional resources for student staff in the Program in Intergroup Relations. Their emphasis on cross-group dialogue and understanding extends its reach throughout campus through effective use of peer educators.

Library collections. Even in a constrained year for investment, we prioritize library collections because they are fundamental to scholarship and teaching. Our broad-reaching archives and collections, together with well-qualified librarians and curators, support and accelerate new discoveries. They also fulfill the essential mission of preserving our knowledge, our culture and the university's considerable intellectual heritage for future students and scholars. This year we provide \$1 million in additional investment for Collections. We are also allocating resources towards additional security equipment and personnel in central campus libraries to protect property and patrons.

Research infrastructure. Our \$1.5 billion in total research expenditures places UM as the top public research university in the nation. The FY2019 budget aims to make strategic, targeted investments across campus that provide key infrastructure to sustain UM's research strength into the future.

For example, in FY19 the university continues its commitment to interdisciplinary excellence in Bioscience research. The College of Engineering has allocated a combined \$2 million in FY19 for its Research Accelerator and “Blue Sky” Initiatives, designed to support the launch of mid-stage ideas and to advance transformational ideas. We will partner with ISR to allocate key supplementary support to the American National Election Study, and their nationally renowned Survey Research Center will invest \$100K toward data science projects related to social media use. The School of Environment and Sustainability is making investments in research incentives for interdisciplinary work.

### **Access and affordability**

The FY19 budget proposal supports the university’s unflagging commitment to making a UM education accessible to all, regardless of financial means.

Go Blue Guarantee. The budget includes continued funding for the Go-Blue Guarantee. Its aim is to convey clearly the university’s financial aid commitments: Free tuition for Michigan students who come from families with annual income of up to \$65,000, the state’s median. Our intention is to attract and enroll a greater number of students from that income range. The FY19 budget recommendation includes a 16.3 percent increase in the aid budget to ensure we can cover our aid commitments for all who qualify for the Go Blue Guarantee and other need-based aid.

Net Price. Many students pay less than the published cost of attendance. “Net price” captures what families pay after grant aid has been applied. In the last decade, our central financial aid budget has seen a compound annual growth rate of 12 percent, allowing us to reduce the net price for families with need.

The success of this investment, and our long-standing policy of meeting full demonstrated need for in-state students from all income levels, has had a striking effect on net price over time, making UM increasingly affordable. We have done this by replacing loan dollars – money that students must eventually repay – with grant dollars, which are not repaid, decreasing student debt.

We are not able to extend the same guarantee to all non-residents. However, this budget proposal includes sufficient funding to continue our policy of meeting full demonstrated financial need for out-of-state students from families with incomes of up to about \$90,000 a year. Out-of-state families with higher incomes may also qualify for aid, but the university is not able to meet 100 percent of their need.

Sticker Price. All in-state students, regardless of their aid status, qualify for a heavily discounted resident tuition rate. This makes the world-class UM experience a substantial bargain for Michigan families. Non-resident students are not entitled to the state-subsidized discount represented in our resident rates. However, the university weighs carefully the value of a UM degree and nonresident tuition rates compare favorably to private peers.

**Fiscal discipline**

The goals of this budget plan could not be attained without ongoing fiscal discipline. The university typically faces unavoidable cost increases in areas such as compliance, insurance, health care benefits and supplies, and the FY2019 budget is no exception. However, UM mitigates these budget pressures with a focus on cost containment. By making strategic reductions in our operating costs, the university can meet increased costs and make new investments, without making the cost of a UM education unaffordable.

The FY2019 budget recommendation contains substantial savings realized through

- reductions and reallocations
- shifting general fund expenses to other sources of income
- cultivating new revenue streams

For example, in FY19 Information Technology plans to reduce hiring to replace departures and retired staff, for a savings of over \$500,000. The Rackham Graduate School has identified operating savings through streamlining tasks and increasing use of technology.

Philanthropic giving plays a critical role in providing units the flexibility to shift costs off the general fund. Gift funds help cover variety of costs, such as support for engaged learning opportunities and to increase aid that attracts the very best talent to UM's campus. The Law School will shift over \$650,000 in faculty salaries from the general fund onto gift funds in FY19. Units also continue their work in increasing revenue from a range of initiatives such as summer programs and online learning. The School of Information, for example, is using \$145,000 in MOOC revenues to seed the creation of new online courses.

The university cannot cut its way to excellence. However, through these strategic efforts schools, colleges, and units across the campus have identified \$25.7 million in funds to direct toward new, high-priority initiatives. Once implemented, these reductions will mean that since 2004, over \$400 million in recurring expenses will have been trimmed from the general fund budget, allowing resources to be reallocated to higher priorities and substantially reducing the pressure for higher tuition increases.

**Budgeted 2019 General Fund Revenues**

Components of the General Fund. The general fund, through which the university pays for its academic mission, has three main sources: Tuition, the state appropriation, and indirect cost recovery on sponsored research. Indirect cost recovery pays specifically for the indirect costs of research, so it cannot be allocated for other uses. The university is planning on an FY2019 state appropriation of \$320.8 million, a 2.0 percent increase over FY2018 funding. In incremental terms, this provides an additional \$6.2 million in funds. We value this support and remain proud of our status as a public institution. However,

state funding has been in long-term decline when measured in real dollars. This has put increasing pressure on our other sources of funding, including tuition.

Tuition is, in most years, the last part of the budget to be determined. The university models expected tuition revenue based on projected enrollment and residency, and proposes the lowest tuition rate increases necessary to meet the university's priorities, to preserve its excellence, and maintain fiscal stability.

Moderate increases in tuition. The budget recommends a lower-division, undergraduate tuition increase of \$436 a year – 2.9 percent – for in-state students. The increase for out-of-state undergraduate students would be 3.9 percent. Tuition for most graduate programs would increase 3.3 percent. A limited number of differential increases also are recommended for specific programs. (See Tuition and Fee Schedule)

We note that while our tuition recommendation is driven by carefully calculated budgetary needs, we consider resident tuition rates in context of state governance, economic conditions, and families' ability to meet any increased cost of attendance. Our recommended in-state tuition increase is well below the state of Michigan's FY19 tuition restraint cap of 3.8 percent. It is also less than the three-year average annual growth rate in Michigan median family income of 3.4 percent. Our aid policies mean that most in-state undergraduates with need will experience no net increase in tuition costs; the Go Blue Guarantee of free tuition will also result in a \$0 increase for recipients.

## **Summary**

The budget recommendation for the Ann Arbor campus is a carefully balanced spending plan that provides the resources necessary to advance the academic excellence of a world-class institution while maintaining access for a wide range of students. The proposed FY19 budget leverages our revenue sources through our commitment to financial discipline, the accumulating benefits of cost containment, continuing to demand efficiency, and strategic development and use of new revenue streams.

The \$2.18 billion FY2019 general fund budget, detailed in Table 1, is based on a state appropriation of \$320.8 million, an incremental \$26 million in cost containment and reallocation and a recommended lower-division, undergraduate tuition increase of 2.9 percent for in-state students and 3.9 percent for out-of-state undergraduate students with an increase for most graduate programs of 3.3 percent.