November 18, 2011

Mr. John Nixon
State Budget Director
State Budget Office
George W. Romney Building, 6th Floor
111 South Capitol
Lansing, MI 48913

Subject: Fiscal Year 2013 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 2013.

Funding Formula Suggestions

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, we receive 26% less than we did a decade ago, not even accounting for inflation. We have been seriously challenged in this funding climate, but have worked assiduously to maintain our commitment to access and excellence through relentless implementation of operational efficiencies, as detailed in the next section. The introduction now of an entirely new funding model poses a new array of serious challenges.

Consistent with the comments that we have previously shared with the House and Senate fiscal agencies, the University of Michigan has deep reservations about the adoption of a 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.
If the State institutes formula funding, careful planning will thus be required to minimize the associated risks. 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 will allow for Michigan public universities to be measured against their peers.

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 2011 is approximately 8,300 students, up nearly 29% since 2005. This is the 8th 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 31,000 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 2011 is about 8,300 students, up nearly 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.

While we continue to believe that formula funding models are not in the best interest of the State, we will work proactively with the State to develop a focused set of metrics that are as straightforward and easy to understand as possible, with data extracted from credible and readily available national sources. 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.

Specific Project Requests

The University of Michigan-Flint is not requesting funding for a specific initiative or project separate from the formula allocation or the capital outlay process.

Impact of Cost Containment Measures

In response to declining revenues, the State of Michigan implemented significant reductions in budget appropriations for higher education, including a 15% reduction in the current 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 6.8% in 2011-2012 and 3.9% in 2010-2011.

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:

- Elimination of one of the four university vice chancellor positions
- Executive officers did not accept any salary increase in fall 2009
- Re-filling only positions deemed critical to the mission of the university
- Larger class sizes
- Reduced course offerings
- Improved energy efficiency
- 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 recently 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. Beginning in 2005, 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 will also delay eligibility for employer contributions to defined contribution retirement plans to reduce costs for new employees.

During 2011, the university completed its study of retiree health benefits. 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 2011 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. In 2012 we are also focusing on the installation of motion and light harvesting sensors. When the latest group of energy projects is completed, we anticipate $350,000-$400,000 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.

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.
Most Recent Board-Approved Operating Budget and Annual Financial Report

Board-Approved Operating Budget

A copy of the University of Michigan-Flint General Fund Operating Budget for Fiscal Year 2011-2012 approved by the Board of Regents at the June 16th, 2011 meeting is enclosed as requested.

Comments

The University of Michigan Board of Regents approved the 2011/2012 fiscal year General Fund budget for the University of Michigan-Flint. The total General Fund budget for the UM-Flint campus for the upcoming fiscal year is $92.5 million. The 2011/2012 budget reflects the cut by the State of Michigan of 15%, resulting in the loss of over $3 million dollars for UM-Flint.

The 2011/2012 budget reflects the challenges of absorbing a substantial budget cut from state. For over two decades, state appropriations have declined dramatically, while the number of people seeking degrees has risen. Investing in higher education in Michigan must become a priority to meet the demands of educating our citizenry.

University leaders have taken steps to significantly contain expenses, including reviewing all hiring decisions, improved energy efficiency, implementation of new technology, and reducing health-related insurance costs through implementation of efficiencies to the university healthcare plan. In fact, UM-Flint employees now pay 30% of their healthcare costs.

The Board of Regents also approved a 6.8 percent increase in undergraduate tuition and fees, and a 4.9 percent increase in graduate tuition and fees for Michigan students at UM-Flint. A typical in-state, full-time freshmen student with 15 credit hours will pay an average of $4,592 in tuition and fees per semester in the coming year. The cost of tuition and fees for graduate students varies from program to program.

UM-Flint’s budget for 2011/2012 includes an 8.8 percent increase in institutional financial aid, which is 2.0 percent more than the tuition increase, and approximately 3% more than in 2010/2011. Nearly 70 percent of all UM-Flint students receive some form of financial aid, including need-based, merit, and private scholarships, as well as loans.

Our highest commitment is to our students and maintaining our stellar reputation for academic excellence. We will continue to review all expenses and make prudent spending decisions. At the same time, we will continue to do all we can during these difficult economic times to enhance the outstanding educational experience at UM-Flint.
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/4b

Enclosure (1)

cc: Gerard Voland, Provost
    Vahid Lotfi, Senior Vice Provost
    Presidents Council
    Bill Bowerman, Senate Fiscal Agency
    Robin Risko, House Fiscal Agency
THE UNIVERSITY OF MICHIGAN-FLINT
Regents Communication

SUBJECT: Proposed Flint FY 2011-2012 General Fund Operating Budget

ACTION REQUESTED: Approval of 2011-2012 General Fund Budget

BACKGROUND:

The proposed 2011-2012 General Fund budget for UM-Flint (attached) assumes a 14.7% decrease in state funding. The proposed budget assumes a 6.8% increase in combined tuition and fees for resident undergraduate students (4.9% for graduate students) over the rates approved by the Regents for 2010-2011.

This budget proposal assumes:

• 1.0% undergraduate enrollment increase, 9.3% graduate enrollment increase; and,
• 8.8% increase in institutional financial aid, 2% above the combined tuition and fee increase.

The proposed budget includes our state appropriation of approximately $17.8 million.

We request approval of the proposed 2011-2012 General Fund budget.

Recommended by:

Ruth J. Perso, Chancellor
University of Michigan-Flint

June 16, 2011
Attachments
## Revenues:

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<tr>
<th>Source</th>
<th>FY 2010 - 11</th>
<th>$ Change</th>
<th>FY 2011 - 12</th>
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<td>State Appropriation</td>
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<td>Student Tuition &amp; Fees</td>
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<td>Incurred Cost Recovery</td>
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<td>Income from Investments</td>
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<td>Department Activities</td>
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<td><strong>Total Incremental Revenues</strong></td>
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<td>3,549,400</td>
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<td>Area</td>
<td>Base Budget FY 2010-11</td>
<td>Projected Expenditure FY 2010-11</td>
<td>Adjusted Budget FY 2010-11</td>
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<td>College of Arts &amp; Sciences</td>
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<td>School of Education &amp; Human Services</td>
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<td>Subtotal - Executive Officers</td>
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<td>General Administrative Services</td>
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<td>General Administrative Reserve</td>
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<td>(158,318)</td>
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<td>Other from Special Programs</td>
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<td>Subtotal - Other</td>
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<td>Total Expenditures</td>
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<td>68,863,660</td>
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**Notes:**
1. FY 2010-11 Budget does not reflect actual unit budgeting in the academic budget.
2. The line items in parenthesis indicate the amount of the line item that is reflected in the academic budget.
3. The line items in parenthesis indicate the amount of the line item that is reflected in the academic budget.
4. The line items in parenthesis indicate the amount of the line item that is reflected in the academic budget.
5. The line items in parenthesis indicate the amount of the line item that is reflected in the academic budget.
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