Almost every time there's news about a tuition increase, a new building or budget challenges, we hear from alumni asking where the University's money comes from and where it goes.

We decided to get the answers right from the top—U-M provost and chief academic and budget officer Teresa Sullivan. This Q&A should go a long way toward helping untangle the complexities of the U-M budget.

**Q** How is the University funded? Where does the money come from and where does it go?

**A** The University receives funding from a variety of sources. The U-M’s overall $5.4 billion operating budget is composed of four separate types of funds, which are designated for specific purposes and can’t be intermingled.

First, there’s the general fund, which is about one-third of U-M’s total operating budget. It pays for the core academic functions, including teaching, advising, libraries and museums; administrative services, including admissions, budgeting and accounting, central human resource services and central information technology; and centrally awarded financial aid. General fund revenue comes from student tuition and fees (65 percent), state support (22 percent), and the recovered indirect costs of sponsored research and other revenue (13 percent).

Second, there are auxiliary funds. Financially self-supporting units that receive no tuition dollars or state-appropriated funds are called auxiliary fund units. The U-M Health System, Intercollegiate Athletics and Student Housing are the University's largest auxiliary fund units. Together, these units make up more than half the University’s total operating budget.

Third are expendable restricted funds, which include research grants and contracts, financial gifts and endowment payouts. They pay for research; scholarships and fellowships; and salaries, benefits and research support for some faculty. They also can pay for programs and academic centers. Expendable restricted funds represent less than one-fifth of the U-M’s operating budget. Accounting rules and federal regulations prohibit restricted funds from being used for other purposes.

Finally, there are designated funds, which make up less than 3 percent of the U-M’s total budget. These funds are generated by fees for conferences and executive and continuing education and cover the costs of the event or activity.

Chancellors at UM-Dearborn and UM-Flint separately develop proposed budgets for their respective campuses.

**Q** How are the University’s budget and tuition set each year?

**A** Each June, President Mary Sue Coleman and I recommend a balanced general fund budget, including adjustments to tuition and financial aid, to the board of regents. The decision on the budget culminates months of planning and discussion by the regents, administrators and staff across campus. We also work with both a student and a faculty advisory group.

Our top priorities as we hammer out the budget are to continue to provide

students with the highest quality education possible and to ensure that academically qualified students from all economic backgrounds are able to attend U-M.

The budgeting process involves rigorous analysis of the ongoing costs of running the academic enterprise, including expected increases in the costs of doing business in areas ranging from utilities to health care benefits to competitive salaries for top faculty. In addition, we look at the anticipated costs of launching and sustaining initiatives intended to keep our programs current and innovative. As part of the overall process, we also take a careful look at ways to cut costs and introduce efficiencies to control expenses. On the revenue side, we pay particular attention to the level of funding the state is likely to provide, a determination that isn’t finalized by the state until early autumn.

U-M’s final budget must balance priorities, anticipated income, costs, planned cuts and savings, expected levels of state funding, tuition adjustments and increases in centrally awarded financial aid. Because of the complexity of today’s economic climate and changes introduced by the federal stimulus funds, we based the FY10 budget on a longer horizon.

**Q** Tuition rose by another 5.6 percent this year. Why does it keep going up?

**A** The single biggest reason for recent tuition increases has been sharp cuts in state funding—a 10 percent base funding cut from fiscal 2002 to fiscal 2009, or nearly $37 million. This is equal to more than $100 million in lost purchasing power when adjusted for inflation. There has been a steady long-term erosion of state support as the portion of the general fund has declined from 78 percent in 1960 to 22 percent today.
It is important to note, however, that the average rate of growth in U-M tuition over the past five years has been among the lowest among public universities in Michigan and in the Big Ten, even with rising costs and declining state support. This has been achieved in part because U-M has used other financial resources, including distributions from the endowment, to reduce the pressure on tuition.

Also, by its very nature, higher education is labor intensive. Students come to U-M because of the quality of the educational experience, which is shaped by our faculty and staff. To recruit and retain top talent—employees who are innovative and produce high-quality instruction and cutting-edge research—we must provide competitive salaries and benefits because peer schools always are looking to woo away our star faculty.

With tuition rising, how will students be able to afford a U-M education?

To help keep U-M accessible, the University has a policy of increasing financial aid at a greater rate than tuition. For FY10, the regents approved $118 million in centrally awarded financial aid, including an 11.7 percent increase for undergraduates—the largest investment in central need-based financial aid in U-M history.

Fortunately, many students will receive more in grant aid and have fewer loans to repay this year than previously, thanks to increases in the federal Pell Grant program and expanded work-study opportunities under the federal stimulus package. Approximately 22,000 U-M families will benefit from an increase in the American Opportunity Tax Credit.

One of the ways we have been able to keep U-M accessible is through fundraising. Thanks to the generosity of alumni and friends, about 20 percent of our endowment is now earmarked for financial aid. In the recently completed Michigan Difference Campaign, donors contributed $545 million for student support, including nearly 2,000 new endowed scholarships valued at $260 million.

How aggressive is U-M in cutting costs?

During the past six years, we have saved and reallocated $135 million in annual costs through more efficient purchasing practices, energy conservation measures, containing health care costs and reducing administrative overhead. At the same time, we’ve become more productive: The number of U-M students has grown more than 5 percent and research volume has increased 17 percent, but the total number of full-time equivalent employees supported by the general fund has grown less than 1 percent.

We will make more than $36.5 million in budget cuts over the next three years by consolidating services, asking U-M employees to pay more for health care, closing our public television station in Flint and funding new initiatives through additional reductions.

This spring, I asked a faculty, staff and student committee to think creatively about other areas we could save money without sacrificing quality. They have made excellent suggestions, many of which I believe eventually will be implemented.

Total Budget $5.4 billion
(all three campuses)

- 2.6% Designated Funds
- 19.2% Expendable Restricted Funds
- 31.5% General Fund
- 51.0% Auxiliary Funds

Undergraduates Receiving Financial Aid
U-M Ann Arbor

- 80% Michigan Residents
- 55% Nonresidents

State Appropriations

Awarded Financial Aid

'02 $100M $200M $300M $400M

'10 $100M $200M $300M $400M

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Does tuition pay for coaches’ salaries and the renovation of Michigan Stadium?

No, not at all. Intercollegiate Athletics at U-M is one of only a handful of financially self-supporting NCAA Division I programs. Ticket sales, corporate sponsorships, licensing fees for apparel, media rights payments for game broadcasts, and gifts from alumni and friends all provide income to sustain U-M Athletics. These revenues cover all salaries and benefits for coaches, the athletic director and other Athletics staff; utilities and insurance for athletic facilities; and maintenance of athletic facilities.

In addition to paying all its expenses, Athletics provided $15.03 million in financial aid—including tuition, housing and books—to 476 student-athletes who competed in 25 men’s and women’s varsity sports in 2008-09. Furthermore, Athletics also contributed $1.6 million for need-based financial aid for other U-M students in FY 2009, and we expect that it will contribute another $1.6 million in FY 2010.

The $226 million Michigan Stadium renovation is being funded entirely through private donations and Intercollegiate Athletics resources, primarily generated by the new seating.

Speaking of the stadium, how does U-M finance other campus construction?

Money for capital projects—new buildings and major renovations—comes from donations, investment proceeds and U-M resources, including surpluses earned by self-funding units such as Intercollegiate Athletics and U-M Hospitals and Health Centers.

U-M’s stellar bond rating—“AAA” from Standard & Poor’s and an “Aaa” from Moody’s Investors Service—reflects confidence in the University’s market strength, financial position and resource management. High bond ratings also save the University money because we are able to borrow money as needed for capital investments at the lowest possible rates.

The university recently spent $108 million to buy property adjacent to the campus. Where did the money come from for that?

The property located next to North Campus, formerly owned by Pfizer, was purchased on June 16, 2009, primarily with U-M Health System funds. No general fund money—and as a result no tuition or state appropriations—was used to purchase the 174-acre parcel and 30 buildings, many of which have state-of-the-art labs suitable for advanced research. The area will be known as the North Campus Research Complex.

This acquisition is an investment in the future of the University and the region. It will allow us to bring in a great deal more research without having to invest in expensive new buildings and enhance opportunities for both undergraduates and graduates. We expect to add as many as 3,000 new positions at the new facilities in the next 10 years.

What role do alumni gifts play in University finances?

Gifts are essential to sustaining the excellence of the University, allowing us to adapt to change and innovate. In addition to supporting scholarships, research and outstanding faculty through endowed professorships, alumni and other donors also contribute significantly to campus facilities. The Michigan Difference Campaign raised more than $478 million for facilities, and 22 new buildings were completed or are now under construction.

Alumni and a host of other supporters, including grateful former patients, art and music lovers, faculty and staff, and relatives of students, give generously to the University because they believe in its mission. And, of course, we are pleased and thankful that a high proportion of donors to the $3.2 billion Michigan Difference Campaign—43 percent—were alumni.

What is the endowment? What role does it play in University finances?

The purpose of the endowment is to provide financial stability for the University for the long term. U-M’s endowment is made up of more than 6,500 separate funds, whose principal is invested to produce a never-ending source of support for purposes specified by the donors. These funds come from donors with the stipulation that the principal remain untouched and that it be invested to produce a never-ending source of support for purposes specified by the donors. For example, money donated specifically for health care or scholarships cannot by law be used for other purposes.

The number of donors who gave to the Michigan Difference Campaign could fill the Big House almost three and a half times.

372,931
About $2 billion—or 26 percent—of U-M’s $7.6 billion endowment is restricted for the U-M Health System, which serves the needs of more than 1.6 million patients a year. These funds can be used only to support research, patient care or other purposes that were identified by donors when the endowments were established.

U-M’s endowment is the seventh largest among all universities in the country and second largest among public universities. However, when we subtract the portion restricted for use by the Health System, U-M ranks 108th in endowment per student, which is much lower than many private peers with fewer students.

The Sidney J. and Irene Shipman Scholarship illustrates the power of an endowed gift over time. The Shipman Scholarship includes a $15,000 annual award, renewable for four years of undergraduate study, plus room and board for recipients who live in U-M residence halls. The merit scholarship was established in 1995 through a $3 million bequest from the estate of Dr. Sidney J. Shipman, an alumnus, and Irene Shipman. Since 1996, 287 U-M undergraduates have received Shipman Scholarships; at the same time, earned interest on the Shipman gift has increased its market value to more than $17 million.

About 20 percent of U-M’s endowment is restricted to direct student financial aid, including scholarships and fellowships. Other endowed funds help pay for faculty, academic support, research and building maintenance, freeing up general fund money and thus reducing the need for tuition increases.

Many universities have a freeze on salaries, hiring and travel. How about U-M?

The Ann Arbor campus has not instituted a University-wide hiring or salary freeze. However, some units are limiting travel and enacting salary freezes while others will provide modest pay increases. In recognition of the difficult financial situation, President Coleman has requested that she receive no merit salary increase from the board of regents in FY 2010. In addition, U-M’s 19 deans and those of us who are executive officers will forgo any merit salary increases.

Overall, how would you assess the state of the University of Michigan’s finances?

The U-M, although better positioned financially than many universities, is still feeling the effects of the recession. We continue to monitor our finances closely, including expenses, endowment payout and liquidity, to protect the University’s long-term health and maintain the quality of a U-M education.

We understand this is a difficult time financially for many students and their families, and we are committed to controlling costs and increasing financial aid so a U-M education remains accessible.

Our prudent investment strategy, highly diversified portfolio, longtime focus on creating efficiencies, successful fundraising and conservative endowment-spending rule have helped us avoid the drastic short-term fixes experienced at many peer institutions.

We anticipate the next several years will be challenging. However, by working together and managing our resources wisely, I am confident the University of Michigan will maintain its upward trajectory, for now and the long-term.

Are each of U-M’s schools and colleges financially self-sufficient, or do some subsidize others?

Tuition and fees and state support flow into the University, where the money is pooled and then allocated by my office to the schools and colleges. We co-mingle costs and revenues. We don’t think of schools and colleges as independent, freestanding units. Together, our schools and colleges are the University of Michigan.