Report
of the
Budget Study Committee

Academic Year 2005-2006

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April 15, 2006

The Changing Cost of Instruction: Update of 2003 Budget Study Report

Preface

The Budget Study Committee (BSC) was formed in December 1992. In February 1994, the Committee issued it first report entitled "The Cost of Higher Education", which began with a brief (only seven sentences) paragraph summarizing the report's content, and which emphasized the Committee's concern at the rapid rate of increase of tuition and the rising costs of an expanding administrative staff. In the its 1997 report, the Committee returned to these topics in the first two sections, “Concerns of Students on the High Cost of Education” and “Size of Administrative Staff”. In the Committee's 2003 report, one of three sections updates the data in the 1997 report. Thus, throughout its existence, two major interests of the Committee have been the continuously rising University budget with special concern over the growth of administrative staff, and the explosive increases in student tuition and fees.

In this report, the BSC returns again to the cost of instruction with an overview of the University’s sources of income and various expenditures. Because of the changes the University has made in its financial reports and expenditure categories, the BSC has had difficulty comparing recent data with that of the years before 2001. However, an attempt has been made to update information about the size of the administrative staff and this topic appears just before the Conclusions section.

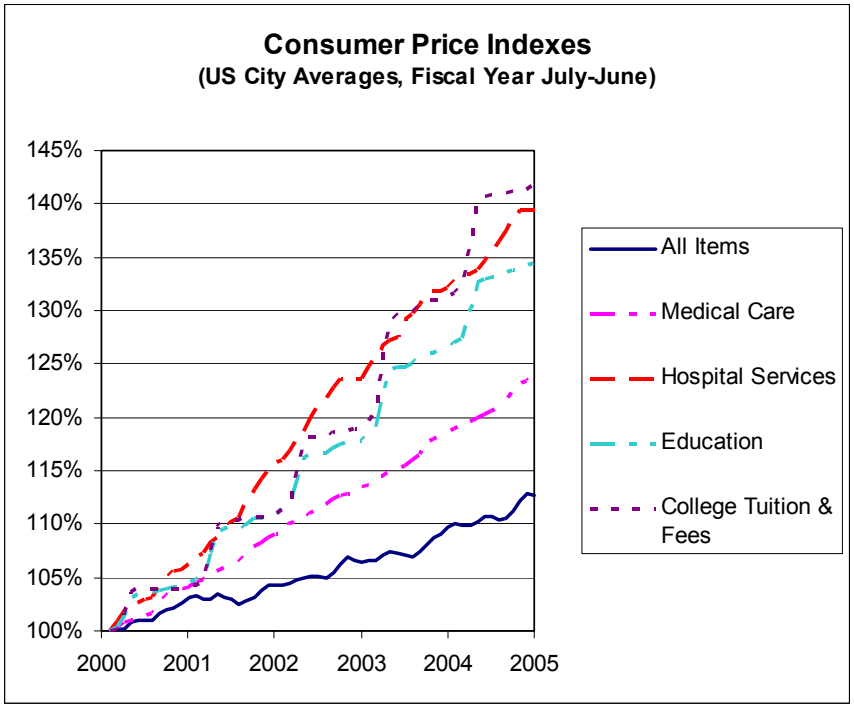

Figure 1

Sources of Data

This report is devoted mostly to a survey of the relevant UM budget items over the five year period fiscal years (July-June) 2001-2005. The majority of data for the report comes from the annually published University of Michigan Financial Report, together with its separately published Supplement. These may be accessed for recent years at www.finops.umich.edu/FormsReports/Reports/index.htm. Previous years can be consulted in the Reference Room of the Hatcher Library. All of the data applies to the Ann Arbor Campus, since other data is hard to come by. We have concentrated on the changing revenues, expenditures, assets and liabilities in significant areas, and affects on tuition.

As a benchmark, Figure 1 shows the US City Consumer Price Indexes for All Items, Medical Care, Hospital Services, Education, and College Tuition & Fees over the five fiscal years, normalized to 100% in July 2000. The staircase rise of education and tuition is due to tuition usually rising in the fall term. “All items” covers all consumer items, not just the four other CPIs listed.

Revenue and Expenditure

The most useful indication of the state of the budget is the General Fund, since it has a lot of leeway in allocation of money to the perceived needs, whereas other funds and assets have considerable restrictions on reallocation. (See Appendix A for a description of funds mentioned in this report.)

The sources of funds for the general fund revenue are the state appropriations, tuition, indirect cost recovery and net investment income. The main general fund expense categories are instruction, academic support, plant operation and maintenance, institutional support, scholarships, student services and research. Academic Support covers supplies and services directly attributable to the academic mission of the university, whereas Institutional Support covers them for the payroll office, university administration etc. not directly attributable to a

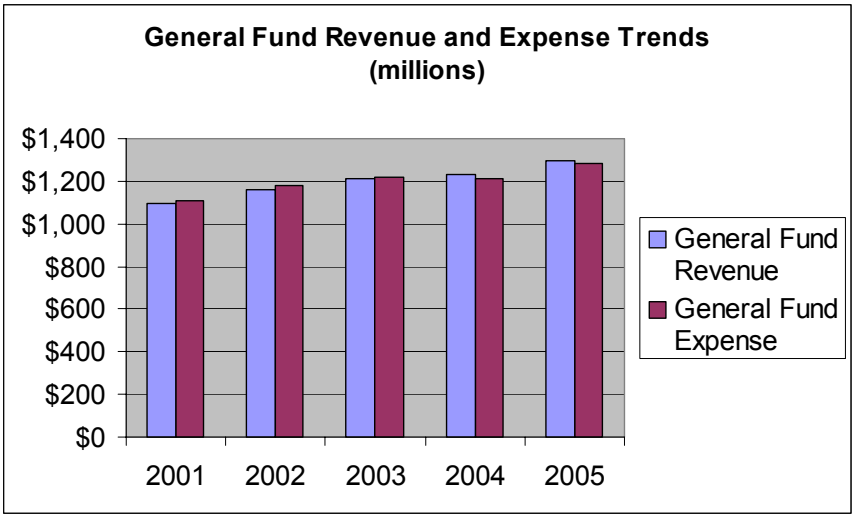

Figure 2

particular unit. Over the five-year period from 2001 to 2005 general fund revenues increased an average of 4.2% per year from $1,097M to $1,296M, and expenses increased 3.8% per year from $1,108M to $1,286M. (See Figure 2.)

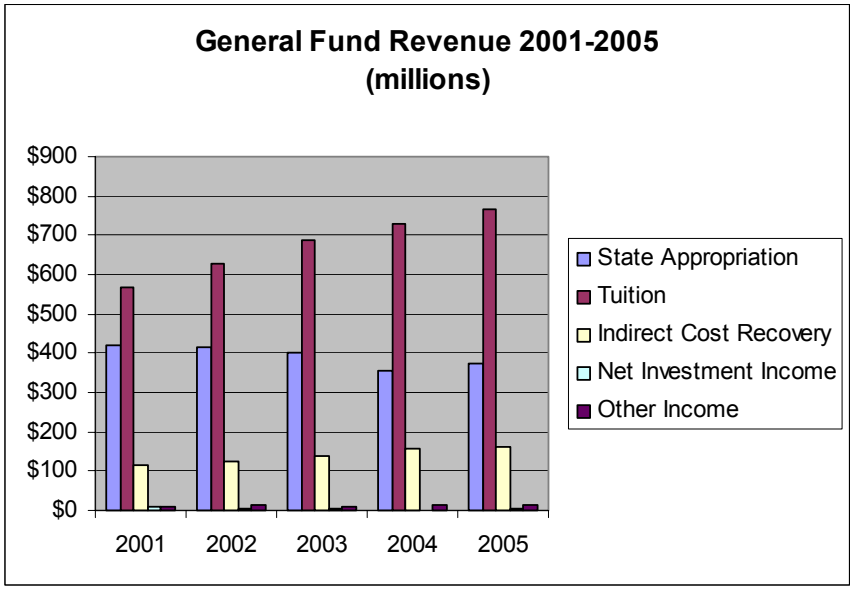

Figure 3

Figure 3 shows that state appropriations have decreased by 11% from $421M to $375M, while the tuition revenues increased about three times as much (34%) from $570M to $765M over the five year period. This is still less than the increase of CPI for College Tuition and Fees of 42%.

Figure 4 shows the Expendable Restricted Fund revenues. This fund covers revenues that have been given for specific purposes such as federal, state and private grants, and donations, plus investments. Government sponsored programs grew by $80M a year in 2001-2003, but in 2003-

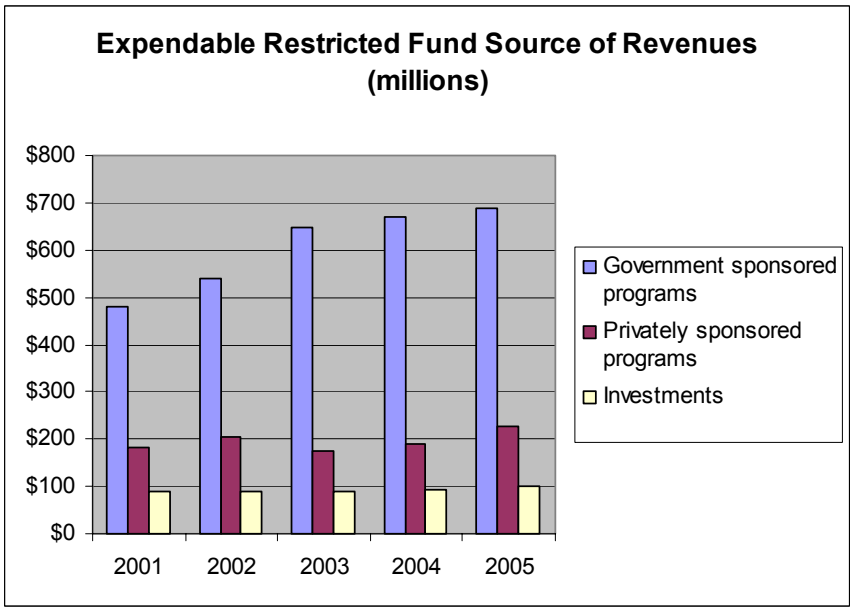

Figure 4

2005, only at $20M a year for an overall increase of 43%, over three times the overall CPI. However, the revenue from privately sponsored programs and investments has remained relatively flat.

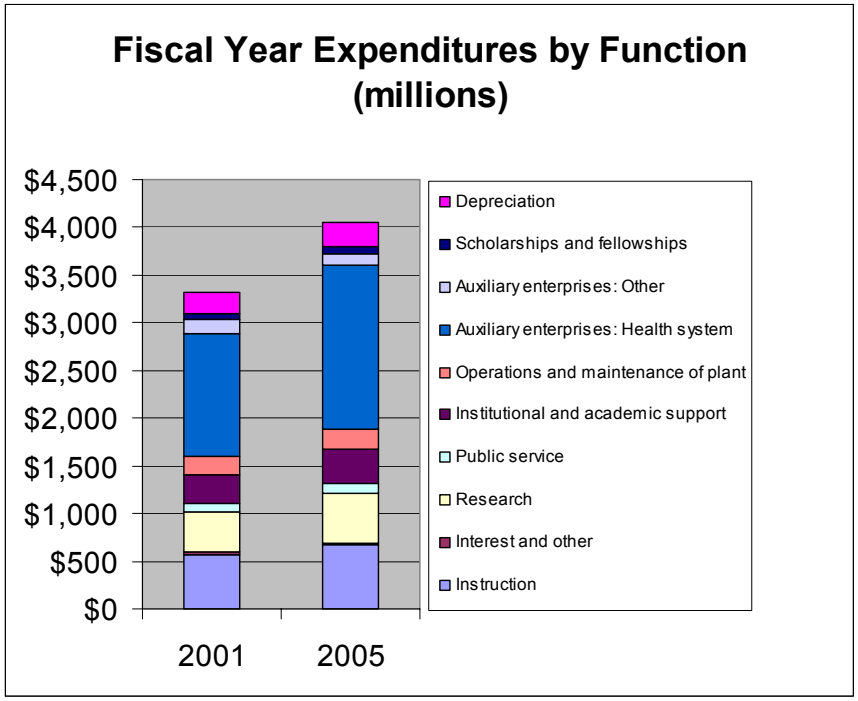

Figure 5

Figure 5 shows how the allocation of expenditures has changed from 2001 to 2005. Although the expenditure has increased by 22%, the percentage allocation to each function has remained largely unchanged.

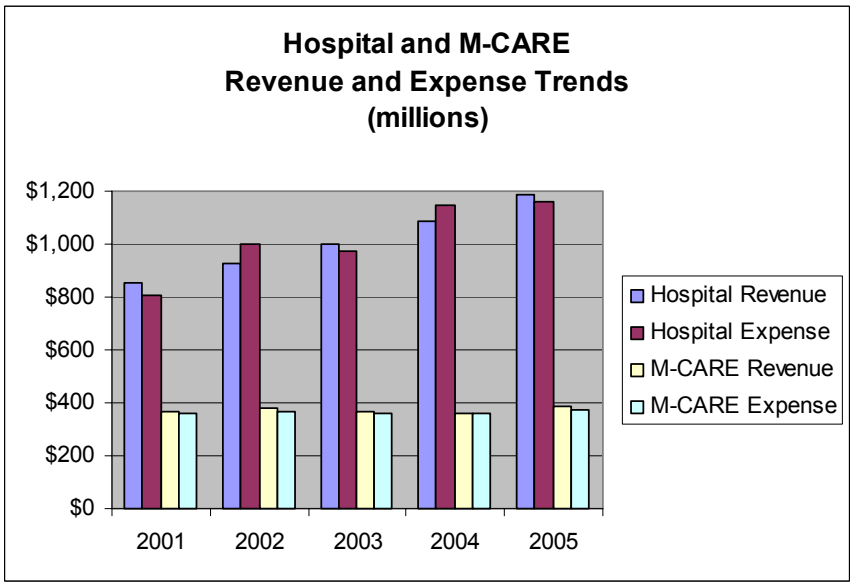

Figure 6

Figure 6 shows that while MCARE revenues and expenses have remained almost constant, Hospital revenue and expenses increased about 8.5% per year.

Tuition and Instruction Costs

If one compares the increase in tuition and decline of state support with the increase in employee compensation, as shown in Figure 7, the difference is seen to be almost constant, so in effect tuition increases have largely compensated for falling state support and faculty salary increases.

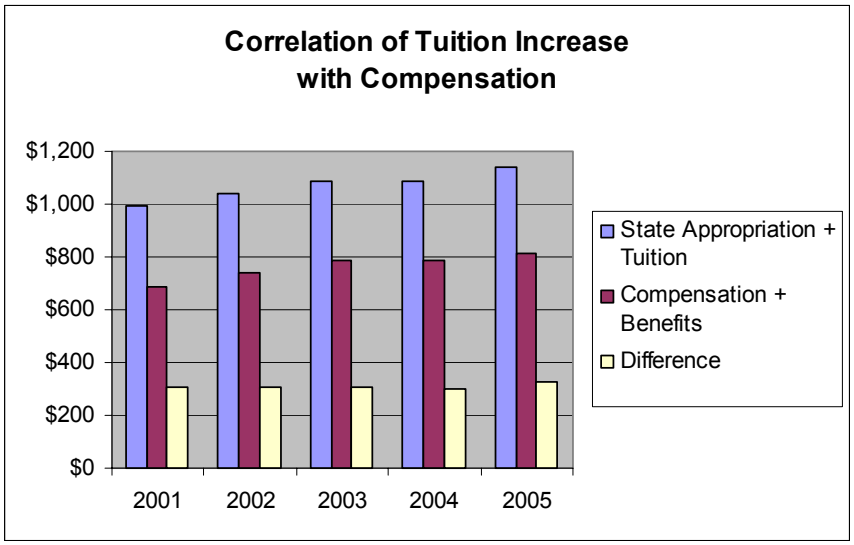

Figure 7

As shown in Figure 8, the cost of instruction has increased by 16.7% while the cost of academic support has increased 20.2%. (See Appendix A for the main items included in all of the categories.) Scholarship support more than tripled in 2002, but has increased only about 2.5% per year since then. However, there are additionally tuition scholarships which act to reduce student fees. These have increased from $98M in 2001 to $146M in 2005.

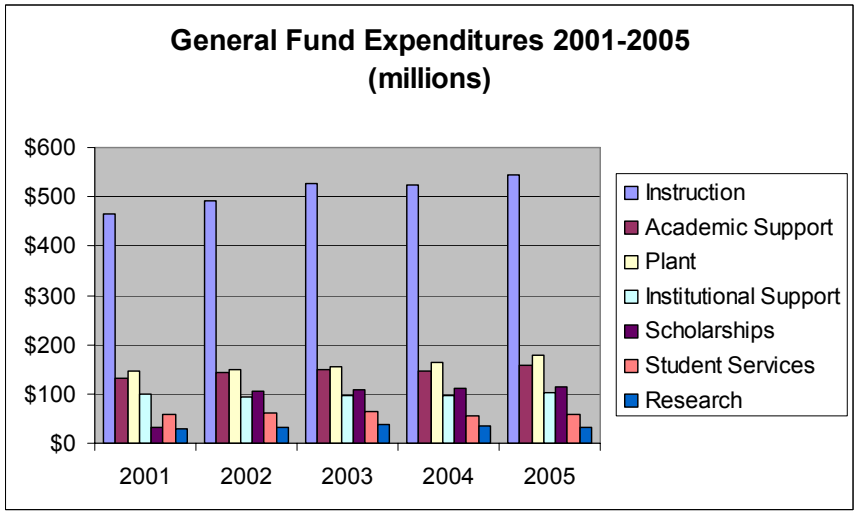

Figure 8

The University's Assets and Liabilities

Figure 9 shows the overall growth of capital assets of the university from 2001 (total $2.3 billion) to 2005 (total $3.1 billion). ("Other" in the chart is land, land improvements and infrastructure.) This is dominated by the figure for buildings which has increased by $200M over this time, including construction in progress. Perhaps more informative is the yearly change in assets shown in Figure 10, which highlights the building activity over the last few years, including the Life Sciences Building, the Biomedical Science Research Building, and the Computer Science and Engineering Building amongst many other projects.

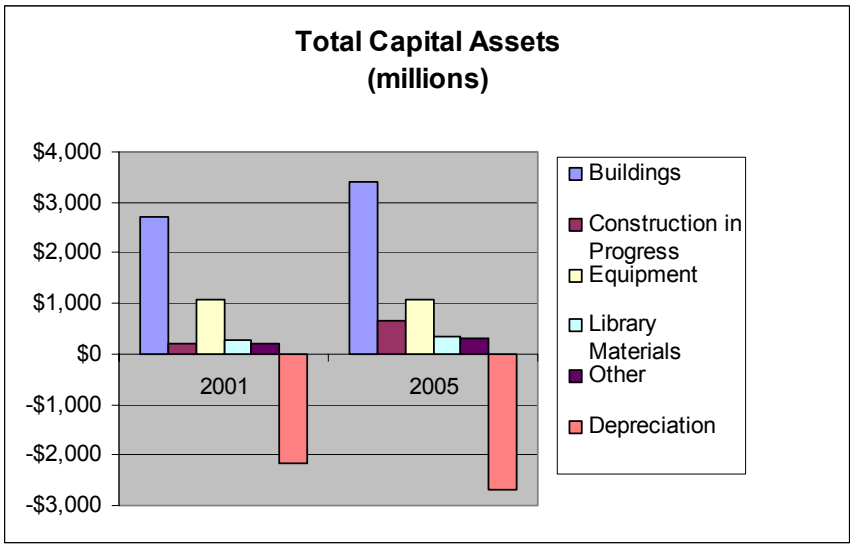

Figure 9

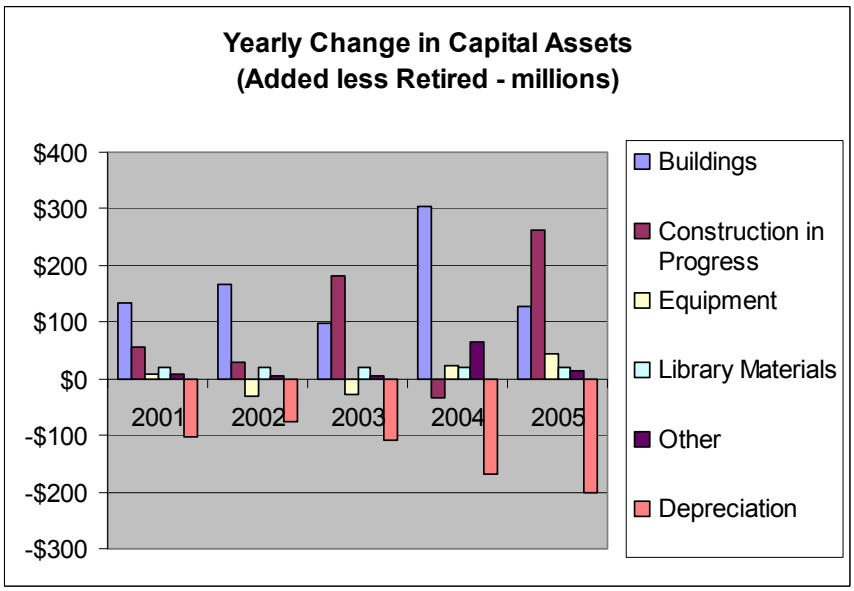

Figure 10

The overall assets and liabilities of the university are shown in Figure 11. As well as capital assets, these include such items as endowments, investments, and current assets such as cash, accounts receivable etc.

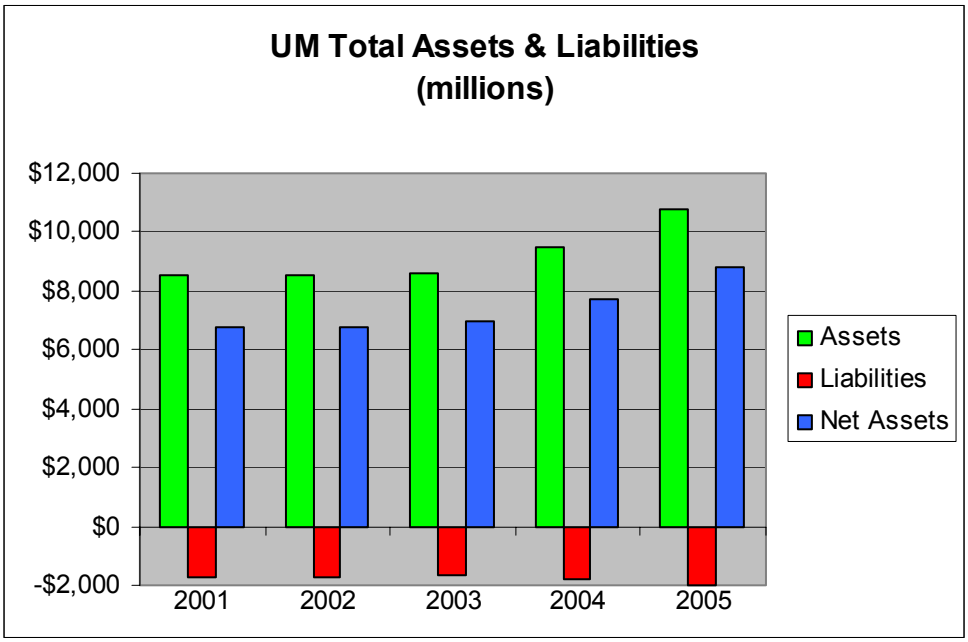

Figure 11

Recently there has been some discussion of the university's liability for post-employment benefits (in federal jargon, OPEB - Other Post-Employment Benefits: mainly for healthcare benefits of retirees) which are not explicitly funded. Starting in 2008, the university must, as will other organizations, show this obligation explicitly as a liability in its annual financial statement (it is not currently included in Figure 11), which will reduce the reported assets. The

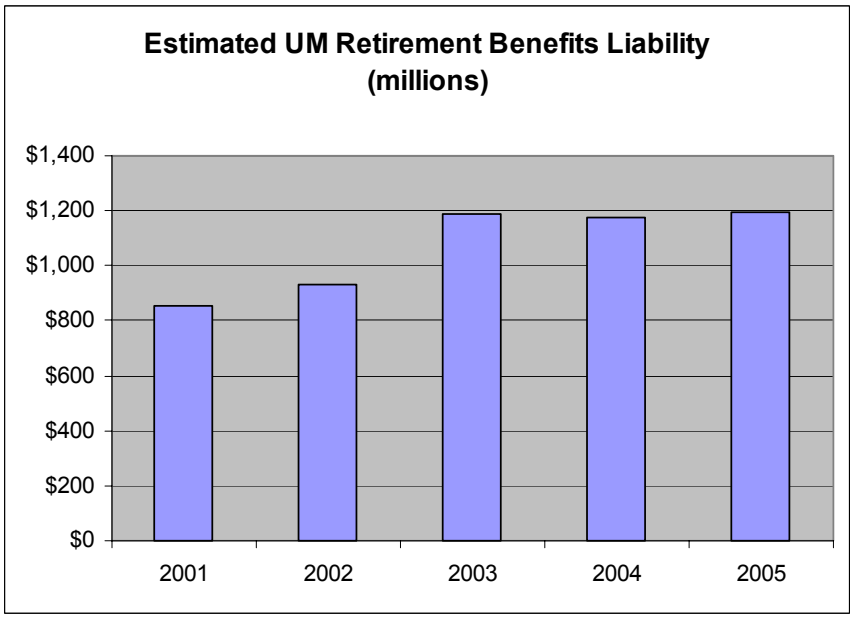

Figure 12

liability is now about $1.2 billion. Figure 12 shows this liability over the last five years. As can be seen, measures have been taken over the last two years to keep this from increasing significantly, and current policy is to minimize its increase while paying the obligation from current income.

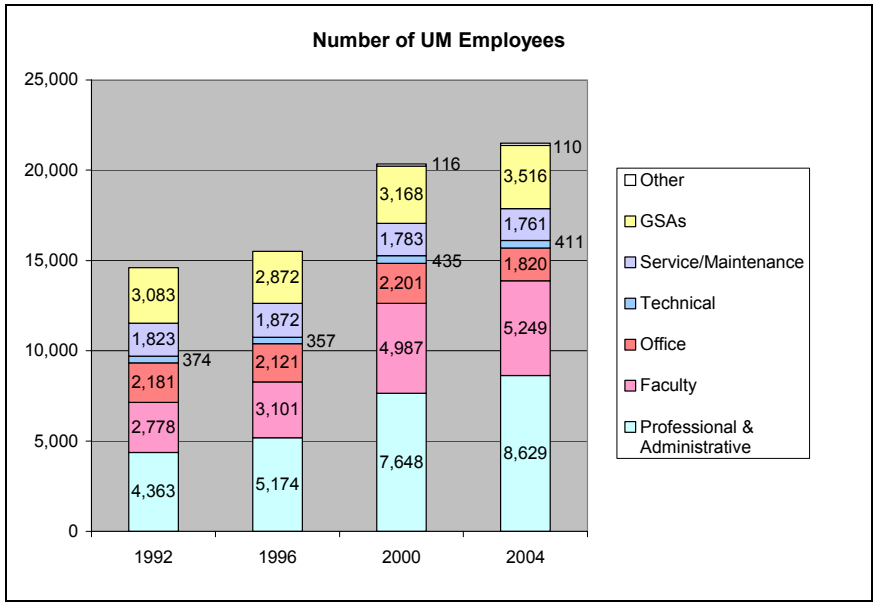

Figure 13

Size of Administrative Staff

One of the issues examined in the April 1997 Budget Study Committee Report was the increase in the number of administrative staff relative to instructional staff. Some further light is shed on this by Figure 13, which shows the 1992 and 1996 data from that report, together with data for 2000 and 2004 (i.e. every four years).

There are some caveats with this chart. The data were drawn from three different sources. The 1992 and 1996 values are from the 1997 report, the 2000 and 2004 staff data is from UM Office of Budget and Planning (OBP) statistics, and the faculty data from two other compilations from this office. Unfortunately in the years 2001-2003 where there are comparable data in these tables, the numbers are not the same. This could be because some categories are defined differently, and figures are obtained from different sources by different people. For example, the total campus faculty in 1996 is given as 3,101 in the April 1997 report but as 4,581 in one of the OBP tables. However, the 1996 report uses the term “Instructional” rather than “Faculty”, but non-instructional faculty do not seem to be accounted for. The OBP table defines faculty as “Tenured, Tenure-Track, Lecturers, Regular Clinical, Supplemental, Primary, Supplemental Primary and Emeritus”, and instructional as the first five groups in this list. Supplemental include adjunct and visiting appointments etc., and Primary include research scientists etc.

However, using the numbers on the chart Figure 13, we can make some comparisons. The committee’s April 1997 report points out that the ratio of Professional and Administrative employees to Instructional was 1.57 in 1992 and 1.68 in 1996, and expressed some alarm at this

increase. Using Figure 13 figures, we find that this ratio is 1.53 in 2000 and 1.64 in 2004, so the growth has not continued. Figure 14 shows the composition of the faculty for 2004. By the OBP definition, 84% of the *faculty* are instructional. Of *total employees*, the largest categories are 40% Professional and Administrative, 24% Faculty and 16% GSA.

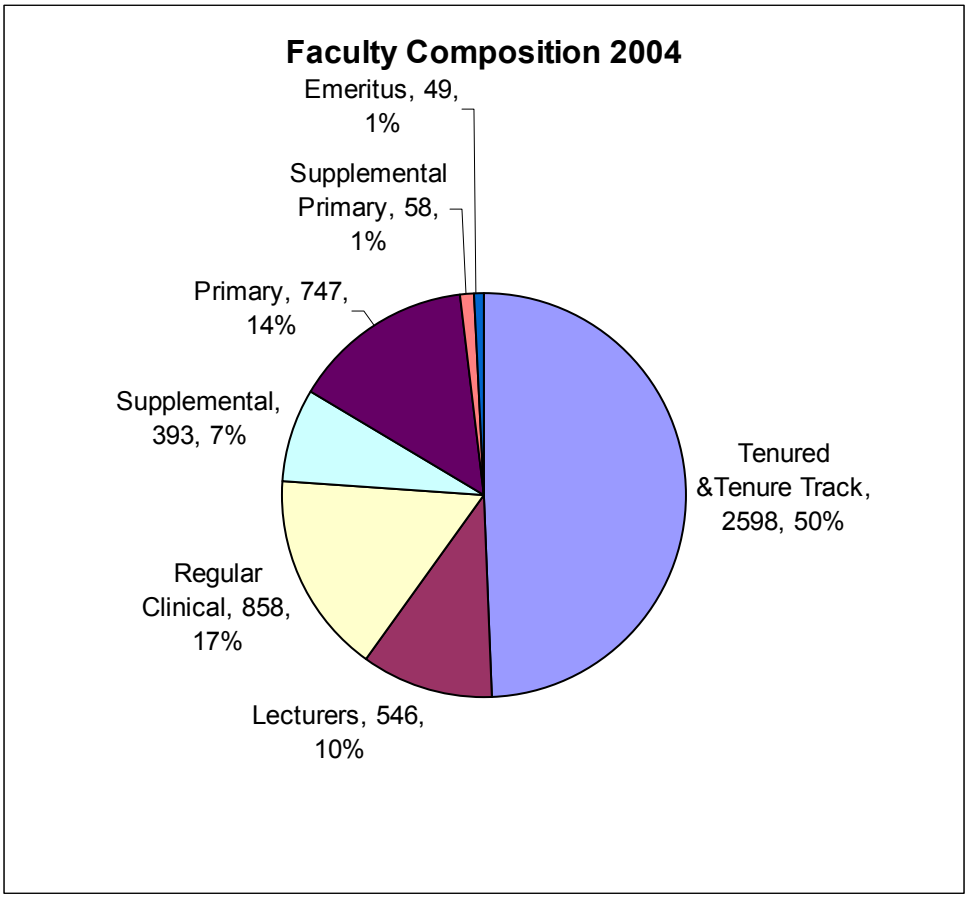

Figure 14

Also pointed out in the 1997 report is how little the student enrollment has increased (36,543 Fall 1992 to 39,533 Fall 2004, i.e. 8%) relative to the increase in faculty, from 2,778 to 5,249 (or 4,395 purely instructional), i.e. 114% or 58%, and how little the numbers for the other categories have changed, which still remains true, although there is no data on changes, if any, in the amount of outside contracting.. The definition of "faculty" has also broadened, which contributes to the apparent increase.

Conclusions

The CPI for College Tuition and Fees rose 42% from 2001 to 2005 but tuition rose only 34% ($195M) at the University of Michigan despite an 11% drop in State Appropriations of $46M. This $149M net increase of General Fund revenue was accompanied by a rise in employee Compensation and Benefits of $126M. However, this seems not to be due mainly to salary increases, but to the increase in the number of employees. From 2000 to 2004 for which figures

were available, 262 faculty were added, but 981 professional and administrative staff, a ratio of 3.7:1. In fact, the University of Delaware's National Study of Instructional Costs showed that the cost to teach one student credit hour at research universities rose only 5.2% from 2000 to 2003, when the CPI rose 6.8%. The cost of education nationally rose 20%, as can be seen from Figure 1. The University of Michigan does not participate in the Delaware Study (unlike CMU, EMU, MSU, MTU, WMU, WSU) but over the same period the cost of instruction at UM rose 21.7%, somewhat more than the national average.

The assets and liabilities of the university have continued to increase, dominated by over $200M of construction during the 2001-2005 period. In 2008, the unfunded liability for retirement benefits which is now around $1.2 billion, will have to be included explicitly in the university's annual Financial Statement, which will reduce the net of assets over liabilities very significantly. However, the figure has been published in the annual UM Financial Reports for a number of years, so it will probably not have much effect of the bond rating when this is done. A more detailed study of this topic is now underway by CESF that will be publishing a report in the near future.

As pointed out above, there has been significant growth in professional and administrative employees, but a comparison of the ratio to faculty with figures from earlier Budget Study Committee reports in 1992 and 1996 shows surprisingly that it has not changed much over twelve years, and is in the range 1.53 to 1.68. On the other hand, while student enrollment has only increased 8%, instructional faculty numbers have increased by 58%, but this is mostly due to the growth on non-tenured, and non-tenure track faculty. In addition, the definition of faculty has broadened to include, for example, clinical faculty in the last decade or so.

Appendix A – Description of Funds

The various accounting funds mentioned in this report are described below.

Auxiliary Fund	Fund used to group business activities that are financed by the University to provide services and support for itself.
Designated Fund	Consists of funds internally designated, but otherwise unrestricted. Expenditures are for special projects designated by the University board of Regents or approved by University Administration. Sources of revenue for the Designated Fund are Revenue from Departmental Activity, Internal Rebill, University Investment Pool income (UIP), Royalty Income, and Distributions from Endowment.
Endowment Fund	Generic term for the following funds: True-Endowment, Quasi-Endowment, Endowment-Specific, Quasi-Specific, Unitrust, Donor Pool, and Charitable Gift Annuity. These are all investment funds within the University system. No money may be spent directly out of these funds.
General Fund	General Fund includes those economic resources of the University which are expendable for the purpose of performing the primary missions of the institution - instruction, research, and public service; supporting programs of academic support, student services, institutional support, operations, and maintenance of plant and scholarship and fellowships - and which are not restricted by external sources or designated by the Board of Regents for other than operating purposes.
Expendable Restricted Fund	Consists of funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose. Sources of revenue for the Expendable Restricted Fund are Gifts, Distributions from Endowment, University Investment Pool Income (UIP) and Indirect Cost Recovery – Institute for Social Research (ISR).
Plant Fund	Plant Fund is used for construction, purchase of equipment, building maintenance, and recording of long term debt and physical properties at the University.

Appendix B – Classification of Expenditures

Expenditure categories in Figure 4 are summarized as follows. For more detail see www.finops.umich.edu/CRO/class.pdf.

Instruction: Course preparation, grading, committees related to instruction, unfunded research, community education, departmental administration of internal and community education, remedial instruction.

Academic Support: Libraries, museums, galleries, media services, academic computing, college/school administration, personnel development, curriculum improvement, DRDA and other sponsored research administration, OVPR, Technology Management Office, other specialized services.

Plant: Operation, maintenance, administration, custodial services, landscaping and grounds, utilities, improvements.

Institutional Support: Regents, president, vice-presidents etc., central planning, medical center planning, fiscal operations, HRAA, Benefits Office, General Counsel etc., University Publications, purchasing, stores, campus mail, printing services., public relations, development office, administrative computing.

Scholarships: Undergraduate, graduate and professional. Excludes those for which services must be rendered, such as teaching assistants and research assistants.

Student Services: Non-academic support (e.g. for minorities, veterans, handicapped), social and cultural enrichment, counseling and career guidance, financial aid administration, admissions, health services, records.

Research: Expenditures not separately funded (e.g. research incentives, start-up funds), administration not specific to a single project, research funded by the university, some clinical trials of drugs.