

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
December 13, 2012

ITEM FOR INFORMATION

Subject: FY 2014 response to the Budget Development Letter from the
Michigan State Budget Office

Background:

In past years, the university's annual budget request to the state was submitted to the Board of Regents for approval before submitting the request to the State Budget Office.

This year, the State Budget Office changed the process. In late October, all the universities were informed that a formal budget request would not be solicited.

Instead, universities were to respond in a letter with an assessment of the current year's performance funding metrics and suggestions for modification that could be considered in the development of the state's fiscal 2014 budget recommendation. In addition, the budget office specifically asked for details about efforts to control costs in fiscal 2013 and the university plans for new cost control initiatives in fiscal year 2014 and beyond.

As this year's request was not in the form of a substantive budget request, and given the condensed timing to meet the deadline, we responded with a letter on November 16, 2012, as requested, and provide herein as an item for information.

Respectfully submitted,



Daniel Little, Chancellor
University of Michigan-Dearborn

December 2012

Attachment



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November 15, 2012

Mr. John E. Nixon
State Budget Director
State of Michigan
111 South Capitol
Post Office Box 30026
Lansing, Michigan 48909

Dear Mr. Nixon:

In response to your letter requesting information to the state in support of the fiscal year 2014 budget development process for University of Michigan-Dearborn, below please find our response to the fiscal year 2013 funding formula and details about our ongoing cost containment efforts. UM-Dearborn is grateful for the opportunity to respond to the Governor's request and for the state funding received this year after years of declining support.

Funding Formula Response

For the past decade Michigan public universities have seen a significant decline in the level of financial support provided by the state; and today, at University of Michigan-Dearborn, we receive 33 percent less than we did a decade ago, which does not account for inflation. We have been seriously challenged in this funding climate, but have worked assiduously to maintain our commitment to access and quality through relentless implementation of operational efficiencies. This year's operational efficiency improvements are noted in our cost containment section.

According to your letter, it appears the funding formula for fiscal year 2014 will not change. We respectfully ask the Governor to consider additional factors in determining the performance criteria for fiscal year 2014, and we respectfully ask that the state establish a set of performance criteria that will be used for several years to allow for consistent and benchmarked measurements. A standard set of criteria will also allow universities to best establish strategies and procedures to maximize our success and be rewarded in the form of greater state funding support that will directly benefit our students.

As stated in our legislative testimony this spring, we agree in principle that degrees completed should be considered when evaluating universities. We also agree that degrees awarded in critical skill areas will help fill currently available jobs and future jobs that will continue to help transform our state's economy. We agree with the criterion that funds universities for the number of Pell Grant recipients, but we believe the percentage is more indicative of access than the absolute number. At UM-Dearborn, 45 percent of our students receive a Pell Grant. UM-Dearborn believes strongly in providing access to a Michigan degree for students of varying economic backgrounds.

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Transfer students are very important to our university, and more than half of our undergraduate students come to us as transfer students from local community colleges and other four-year colleges and universities. This is typical of institutions in our Carnegie Classification. When evaluating our university's ability to provide value to the undergraduate experience, we suggest the Governor also consider using the Michigan School Data, which includes National Student Clearinghouse Data, to track undergraduate academic success across all post-secondary institutions. All Michigan public post-secondary institutions contribute to the Michigan School Data P-20 Data System, and a large number of Michigan private institutions and national public and private institutions participate in National Clearinghouse Data. This method demonstrates that after six years, more than 80 percent of students who began at UM-Dearborn graduate from our university, a different college or university, or are still enrolled in school. Universities should be recognized if they contribute to the academic success of a student.

UM-Dearborn supports Business Leaders for Michigan's proposal to fund the state's public universities at a level comparable to Top Ten states if they meet top quintile peer performance; this proposal also calls for state support to go to university base budgets. Numerous research studies show a college-educated citizenry will grow the state's economy, make our state more attractive to businesses, and lead to a higher quality of life for the residents of our state, thus the role of our public universities is key to the success of our state.

Finally, we believe the Governor should continue to allow its public university boards to set tuition rates. Each of Michigan's public universities has different missions, unique needs, and varying characteristics. What may work for one of our state's flagship institutions may not work for Michigan's regional universities and vice versa.

UM-Dearborn applauds the Governor and Legislature for completing the state budget earlier in the year. This allows us to best prepare our budget for the academic year. In the spirit of early and expected budgeting practices, we suggest the state strongly consider restoring state funding to university base budgets. This year's incremental allocation was of necessity treated as one-time funds. Adding state funding to base budgets will begin to restore years of declining state support and allow us to better prepare our budget, knowing what to expect from the state each year. We also ask the state to consider restoring fiscal year 2013 one-time funding to next year's base budget.

Cost Containment and Institutional Budgeting

At UM-Dearborn, we are continuously searching for ways to cut costs without jeopardizing an affordable, quality education for our students. Since 2009, we have reduced annual expenditures by over \$3 million through cost containment initiatives. We have continued this focus and expect to realize over \$600,000 in expenditure savings for fiscal year 2013. In our Business Affairs division, we reorganized service areas that have resulted in more than \$400,000 of annual salary and benefits savings. This initiative will be continued into next year across campus, with expectations of approximately \$500,000 in annual salary and benefit savings in fiscal year 2014.

Energy conservation has been a continuous effort throughout campus for several years. For example, this year we are implementing more efficient lighting and updating our utility metering. We estimate the utility cost savings to be about \$100,000 in fiscal year 2013, with additional savings of \$100,000

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in fiscal year 2014. We have also taken on several smaller initiatives, including a uniform communications policy, procurement strategy review, and reduced copier costs resulting in savings of approximately \$20,000 in fiscal year 2013 and \$15,000 estimated in fiscal year 2014.

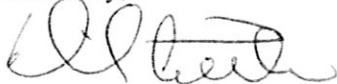
We have continued to curb a rising increase in health care costs. Beginning January 1, the university will institute a new points eligibility system for retirement benefits, a reduced university contribution toward the cost of retiree health benefits, and implementation of a new policy on sharing the increased cost of retiree health benefits. These changes will be phased in over several years and will significantly reduce the cost of retiree benefits. This year, we will realize \$100,000 in retirement benefits cost savings and again accrue more than \$1 million in health care savings due to the increased employee contribution (now at 30 percent) implemented over the last few years.

At UM-Dearborn we have had a significantly strong demand for student housing; however, the capital investment for on-campus residential housing is significant. With that in mind, this year we entered into a partnership with a private housing developer who is building apartment-style student residences to accommodate this strong demand. This partnership has allowed the university to provide an adjacent-to-campus living option for our students without a significant investment in up-front costs, saving millions in debt service and precious operating funds from our general fund. The \$28.5 million project is funded entirely with private funding, yet fills a significant demand that will support future enrollment growth and the local economy. This innovative approach includes a strong partnership with the private developer, as well as state and local government agencies, as evidenced by the county's assistance in implementing a crosswalk across Evergreen Road and the city of Dearborn's future commitment to connect the new Dearborn Amtrak train station with our campus. Additionally, the state has provided a Brownfield Tax Plan for the repurposing of vacant buildings being utilized by the developer.

As you can see, UM-Dearborn has been a partner with the state in working toward achieving the performance measurements and containing costs. UM-Dearborn is appreciative of the opportunity to provide input toward public university performance criteria and share information about initiatives that have brought about cost savings for the university.

Thank you for your consideration.

Sincerely,



Daniel Little
Chancellor

Cc: Mike Boulus, Presidents Council
Bill Bowerman, Senate Fiscal Agency
Kyle Jen, House Fiscal Agency
Office of Education and Infrastructure