

2023 Budget Narrative

Executive Summary

The University of Michigan-Ann Arbor (U-M) continues its focus on academic excellence and affordability for the coming year. The 2023 budget recommendation provides a balanced budget in a challenging environment, prioritizing investments in the faculty, staff, and students who jointly pursue and realize the ongoing excellence the university offers. This budget provides the resources needed to maintain and enhance our excellence while fostering a thriving and healthy environment for members of our community.

Prioritizing People: The 2023 budget reflects careful planning to maintain U-M's excellence in a challenging and fluid environment. A key focus of this budget is the investments in our students, faculty and staff through merit programs and benefits support. Additionally, this budget includes the expansion of the \$15/hour minimum wage to temporary and student employees. These investments acknowledge the deep commitment that faculty and staff make to students and community through their efforts in providing world-class education, innovative and groundbreaking research, and supporting outreach efforts across the state, nation, and world.

Accessibility & Affordability: In challenging times, U-M's commitment to access is more important than ever. U-M provides generous financial aid packages to assure a Michigan education remains affordable. The budget recommendation continues our commitment to provide all in-state students with a financial aid package that meets 100 percent of demonstrated financial need. Currently, 61 percent of in-state students pay less than full tuition and of those one in four pay no tuition. Additionally, all in-state undergraduates with financial need will have no increase in net tuition from this tuition increase as additional financial aid will completely offset the change in tuition and fees. Substantial financial aid also is available for out-of-state students.

Fiscal Discipline: The university's ongoing focus on cost containment is critical in the 2023 budget. We have maintained our annual practices of discontinuing lower-priority activities and employing philanthropy to relieve general fund expenses. Furthermore, the measures we adopted to meet the budget challenges posed by COVID-19 present ongoing opportunities to operate more efficiently, many of which have been embedded in schools, colleges, and other operating units.

Tuition & Financial Aid: The base tuition and fee rates for undergraduates are recommended to increase 3.4 percent for residents and 3.9 percent for nonresidents. Tuition for most graduate programs are proposed to increase 3.9 percent. A limited number of differential increases also are recommended for specific programs. An increase to total financial aid of 6.5 percent is included in the 2023 budget, significantly more than the recommended increase to tuition and fees. As a result, all in-state undergraduates with financial need will have no increase in net tuition from this tuition increase as additional financial aid will completely offset the change in tuition and fees.

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Context & Environment 2023 Budget

The 2023 fiscal year general fund budget recommendation for University of Michigan-Ann Arbor maintains the longstanding focus on academic excellence, access and affordability, and fiscal discipline.

The context of the 2023 budget is shaped by several factors:

Cost Pressures & ‘The Great Resignation’: Budget planning for the 2023 fiscal year occurs in the context of national and global economic trends not experienced in a generation. For the twelve months ending March 2022, the Consumer Price Index increased by 8.5 percent, representing a rate of change that has not occurred since the early 1980s. Cost pressures of this magnitude challenge every aspect of the institution including commodities, classroom technology, travel, and research equipment. However, most notably, this type of environment challenges the faculty, staff, and temporary workers on our campus, particularly those at the lower end of the income distribution.

Further challenging the campus are conditions in the labor market that complicate recruiting and retaining faculty and staff. According to the Bureau of Labor and Statistics, more workers left their jobs in 2021 with employers having more positions to fill than ever before. While millions of workers left jobs for cash incentives, better pay or benefits, people also left the labor market to care for children or elderly relatives during the pandemic. U-M has been no exception to these trends with total departures from resignation reaching 10 percent this year, approximately two percentage points more than in a typical year. Using an industry average of approximately \$4,400 of costs per hire, it is estimated that U-M spends upwards of \$18 million annually to recruit and onboard new staff. An increase of two percentage points in resignations translates to an additional \$3.6 million in costs due to increased employee departures. Additionally, during the current planning cycle, units have reported failed searches, multiple openings, salary pressure to attract new hires, and difficulty in matching “perks” offered by external competitors.

2023 State Funding: Annual support from the state is critical to our budget. Increases in appropriations are typically allocated to help the university meet increases in mandatory and other costs. At this time, the 2023 state appropriation has not been determined and the differences between the governor, state senate, and state house funding proposals are significant. While we await a final appropriation decision, we have modeled an outcome that approximates the mid-point of the three proposals, including a 3 percent increase to base appropriations in the 2023 budget. U-M supports the commitment of the governor and state senate to provide incremental base funding for higher education as well as the additional one-time resources included in respective proposals.

Cost Containment: This budget takes seriously our commitment to keep costs down and limit the need to increase tuition and fees while making key investments. Annual cost containment efforts enable U-M to achieve \$30 million in ongoing savings in the 2023 budget.

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Investments in Excellence

U-M stands as one of the world's leading teaching and research universities, recently ranking as the best university nationally for value. With value as a beacon, we take seriously our responsibility to preserve the university's standing through investments that promote innovation and foster excellence. These investments continue even in a constrained budget environment through careful evaluation of priorities and strategic decisions about resources.

Investing in our people: The 2023 budget makes its most profound investment in the faculty and staff of the university; those most responsible for supporting the excellence, mission, and infrastructure of U-M. This investment acknowledges the deep commitment these individuals make to our students and community through their efforts in providing world-class education, innovative and groundbreaking research, and supporting outreach efforts across the state, nation, and world.

In addition to merit programs for faculty and staff, the 2023 budget also includes an increase of the minimum wage to \$15/hour for all employees, expanding the adjustment to minimum wage standards that began in 2022. This change will assure that all employees, including students and temporary staff, are compensated in a manner consistent with institutional values, regardless of how many hours they work for the university.

Students: The 2023 budget continues to focus on our students to assure their well-being, engagement, and success. Over the last several years, U-M has made significant investments in initiatives and programming that directly supports the student experience. As examples, the proposed 2023 budget provides new resources for student mental health and well-being, transfer bridges for community college students, DEI community teams, alternate testing accommodations, student success specialists, and numerous other investments in technology and programming supporting the student experience. In fact, U-M currently deploys or is planning the deployment of numerous applications that are intended to support student wellness and engagement in a consistent manner.

Additionally, while the COVID-19 pandemic recedes from the foreground of our planning efforts, it is an ever-present reminder that the campus needs to be mindful of health and safety in an ongoing manner. While our acute pandemic response concludes, ongoing monitoring processes are being embedded into day-to-day operations through the establishment of the Office of Infection Prevention and Epidemiology under the direction of the university's Chief Health Officer, with funding included in the 2023 budget.

Innovation & Service: As a public research university, U-M takes seriously its role in education, innovation, outreach, strengthening the economy, and improving quality of life. This budget enables us to produce research that advances human knowledge and to equip the next generation of leaders with the knowledge, skills, and ethos to lead in a rapidly changing world. For example, this budget includes additional investments in quantum physics, poverty solutions,

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rural-life research, innovation in augmented and virtual pedagogy, and ongoing campus efforts in diversity, equity, and inclusion.

The 2023 budget also includes the second allotment of \$5M for environmental conservation measures enabling U-M to continue the momentum in pursuing the recommendations of the President's Commission on Carbon Neutrality. U-M has advanced a plan for attaining carbon neutrality that is both financially responsible and environmentally just. Through scalable, transferrable measures, U-M intends to model how large and complex institutions can make transformative change in addressing the climate crisis.

Access & Affordability

A key factor in the development of the 2023 budget proposal was sustaining the university's unwavering commitment to making a U-M education accessible regardless of financial means.

U-M has made substantial commitments to keep the cost of attendance affordable for families from Michigan. In addition to our long-standing policy to meet the full need for all Michigan resident undergraduates, over the past decade we have made sizable investments in grant aid to reduce net price, including programs such as the Go Blue Guarantee and Wolverine Pathways. In fact, over the past decade, spending on financial aid has increased by an average of 11 percent per year.

Net Price: Many students--61 percent of in-state and 42 percent of out-of-state undergraduate students--pay less than the published cost of attendance. "Net price" captures what families pay after grant and scholarship aid has been applied, and is a key metric for assessing affordability and access.

Our investments in the financial aid budget over the past decade have allowed us to reduce the net price for families with need. In fact, for students from families with income of \$120k or less, the "Net price" after being adjusted for inflation, is lower in the current year than it was ten years ago. Additionally, all in-state undergraduates with financial need will have no increase in net tuition from the proposed tuition increase as additional financial aid will completely offset the change in tuition and fees. Our progress on "Net price" has only been possible with the robust investments we have made to offer generous aid packages. As a demonstration of this commitment, approximately 2,000 fewer students took out loans as part of their college financing plan in 2020-21 when compared to 10 years ago, despite a growth of over 4,000 enrolled students over the same period.

Sticker Price: All in-state students, whether or not they apply for aid, qualify for a heavily discounted resident tuition rate. This makes the world-class U-M education a substantial bargain for Michigan families. In fact, as a demonstration of its value, U-M was recently named the number one university in the country for value by Money Magazine.

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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 U-M degree, and nonresident tuition rates compare favorably to private peers. In the context of broader inflationary pressure and with U-M's ongoing commitment to financial aid, our recommended 3.9 percent increase for out-of-state students aligns with this tuition philosophy, and is below projected inflation.

The 2023 budget includes a 6.5 percent increase in total financial aid, well in excess of the increase in cost of attendance, with the result that all in-state undergraduates with financial need will have no increase in net tuition from the proposed tuition increase as additional financial aid will completely offset the change in tuition and fees.

Fiscal Discipline

The goals of this budget plan could not be attained without our continued commitment to fiscal discipline.

U-M has an ongoing commitment to mitigating budget pressures through a focus on cost containment. As part of the annual budget process, units across campus examine their operations to identify lower-priority activities, expenditures they can eliminate, perform more efficiently, or support through alternative funding. Without these continuing efforts that generate annual cost savings of approximately \$30 million, tuition would need to be 2.3 percent higher after accounting for financial aid. In addition to the demonstrable cost-savings, cost containment efforts help focus operations through embedding lessons learned during the pandemic, discounting and consolidating lower-priority activities, and optimizing capacity to meet demand.

In addition to this annual process, units across campus realized substantial savings during pandemic operations when U-M froze salaries and hiring. Other one-time savings came from the postponement of construction projects and eliminating expenditures in areas such as travel, professional development, and non-essential supplies. These constraints, representing a shared sacrifice among U-M's employees, have allowed units to accumulate savings that can be applied towards funding short-term needs in 2023.

Philanthropic giving continues to play an essential role in allowing the university the flexibility to shift costs off the general fund and providing funding for key priorities. Our donors have long played a vital role in supporting university priorities and stepped up during the pandemic to increase support for students and key programs.

Finally, another aspect of our fiscal discipline is our innovation in optimizing academic capacity. New alternative-entry programs that bring new students to campus in Winter and Summer and new online degree options enable us to expand programs and provide additional opportunities, without requiring investments in increasing fall-term capacity.

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Components of the 2023 General Fund Budget

The general fund is the primary source of support for the academic mission of the university. The general fund is composed of three significant sources of funds: Tuition, state appropriations, 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.

At this time, the 2023 state appropriation has not been determined, and the differences between the governor, state senate, and state house funding proposals are significant. While we await a final appropriation decision, we have modeled an outcome that approximates the mid-point of the three proposals, including a 3 percent increase to base appropriations in the 2023 budget. U-M supports the commitment of the governor and state senate to provide incremental base funding for higher education as well as the additional one-time resources included in respective proposals. Funding increases commensurate with the governor's and state senate's proposals would be an important first-step towards making progress on the gap in per student appropriations that has emerged over several decades. In fact, U-M currently receives approximately \$5,900 less per student than in 2002 when adjusting for inflation. The funding gap is the equivalent of approximately 36 percent of current undergraduate tuition rates for an entering student in the College of Literature, Sciences, and Arts.

Inclusive of the modeled 3 percent base increase discussed above, the university is tentatively budgeting for a 2023 state appropriation of \$332.6 million.

Tuition & Financial Aid: The university forecasts tuition revenue based on projected enrollments and has proposed tuition rate increases necessary to meet the university's priorities, enhance its programmatic excellence, and maintain fiscal stability.

The budget recommends a lower-division, undergraduate tuition increase of \$558 a year – 3.4 percent – for in-state students. The increase for out-of-state undergraduate students and for most graduate programs is proposed at 3.9 percent. A limited number of differential increases also are recommended for specific programs (See Tuition and Fee Schedule). The proposed tuition increases are projected below inflation, follow a period of several years with low tuition adjustments, and are paired with a 6.5 percent increase in total financial aid.

Summary

As we emerge from a period of unprecedented changes and challenges, we are guided by our unwavering commitment to sustain the excellence of our education, research, and service missions. Our priorities are focused on the students, faculty, and staff who make up this great university and actualize our commitment to providing long-term societal benefits through education, research, and public service.



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Finally, we note that the budget process for an institution as complex as U-M requires considerable work on the part of budget administrators and officers at every level of the university. The challenges of the last few years required thoughtful collaboration, dedication to mission, and significant sacrifice from people throughout the organization. The strength of the university's position as we present this 2023 budget is a testament to their efforts.