

Executive Summary

The University of Michigan continues its focus on academic excellence and affordability in FY2021. The FY2021 budget recommendation is crafted to provide a balanced budget in challenging circumstances while meeting the university's top priorities.

Academic Excellence. Our FY2021 budget reflects careful planning to maintain UM's excellence in a constrained environment. Included are key investments in compliance, health and safety, and instructional technology.

Accessibility. 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. Substantial aid is also available for out of state students.

Fiscal Discipline. The university's ongoing focus on cost containment is critical in the FY2021 budget. We have maintained our annual practice of discontinuing lower-priority activities and employing philanthropy to relieve general fund expenses. Furthermore, the university has responded to the unusual budget challenges posed by COVID-19 by taking additional bold steps to constrain costs.

Our budgetary goals are attainable with a modest undergraduate tuition increase of 1.9 percent. Tuition for most graduate programs would also increase 1.9 percent. A limited number of differential increases also are recommended for specific programs.

Introduction & Context

The 2021 fiscal year general fund budget recommendation for University of Michigan-Ann Arbor maintains our longstanding focus on academic excellence, access and affordability, and fiscal discipline.

The context of the fiscal year 2021 budget is shaped by several factors:

The Global COVID-19 Pandemic. The pandemic brought about an abrupt change to university operations in March of 2020 and necessitated new strategic planning for a return to our usual activities in research, teaching, and service. Across campus, members of the UM community have invested significant time and effort in planning how to safely and effectively meet the challenges of the 2021 fiscal year. This budget aligns university resources with those plans.

FY2021 State Funding. At this time the FY2021 state appropriation has not been determined. Annual support from the state is critical to our budget, and increases in appropriations are typically allocated to help the university to meet mandatory and inflationary cost increases. This year, the state of Michigan anticipates a budget shortfall; a \$2.5 billion deficit in FY2020 and an expected shortfall of \$3 billion in the 2021 fiscal year. While we await a final appropriation decision we have modeled flat funding – no

change in funding from FY2020 levels. We remain hopeful the state can maintain its support for higher education.

Uncertainty about Enrollment. Several factors related to COVID-19 insert some uncertainty into our usual enrollment projections. We are currently modeling a modest decline in FY2021 enrollment, primarily related to visa and travel issues that may impede enrollment of our international students. The university has been working to address potential barriers to attendance wherever possible.

Ongoing Aid Initiatives. UM has made substantial commitments to keep UM affordable for Michigan families. This includes programs such as the Go Blue Guarantee. We recognize also that the economic downturn related to COVID-19 may have increased financial need for some families. The FY2021 budget includes funds to meet the growing costs of these commitments.

Compliance. UM's commitment to safety, integrity, and legal and regulatory compliance leads us to provide increased resources for these areas in FY2021. Even in a year where our spending is constrained, these costs are regarded as mandatory.

Cost Containment. Cost containment is an annual endeavor but the FY2021 budget reflects a series of new efforts to constrain costs. These require a shared sacrifice among faculty and staff and a deferral of some of our plans for new programs and capital improvements.

Investments in Academic Excellence

UM stands as one of the world's leading teaching and research universities. We take seriously our responsibility to preserve the university's stature through investments that promote innovation and foster excellence.

When building the budget, our usual practice is to identify central allocations to units to support initiatives that further enhance the university's academic excellence. In FY2021, many of these funds are being held centrally until we have clarity on the level of our state appropriation and unit-level needs related to operations in the COVID-19 environment. Plans for distributing these funds will be developed during the fall 2020 term.

We have identified several key central investments that we can commit to now:

Compliance. The university operates in an increasing complex regulatory environment. We maintain an unwavering commitment to operating with accountability and maintaining a culture of compliance, integrity, and ethical conduct. Among our FY2021 investments are additional resources to support enhanced IT security, streamline compliance and disclosure requirements in research administration, and ensure that the university's digital resources are accessible to users.

Health and Safety. Pursuing UM’s goals and continuing our operations in a public health-informed manner requires new special measures and investments related to safety and health. These include materials and procedures for cleaning and disinfecting, protective equipment for faculty, staff, and students, and alterations to facilities such as partitions and shields.

Instructional Technology. The university’s ongoing investments in instructional technology played a vital role in enabling the university to deliver instruction remotely in FY2020; these technologies will also play an important strategic role in our ability to support student learning in FY2021. We anticipate additional investments in software that supports sharing and collaboration between students and faculty. Funds will also be allocated to technology & instructional design that will enable courses to be more effectively delivered online, or in a hybrid mode, meaning instruction may be accessible by students whether they are in the classroom or attending remotely. Other costs include providing improved technology to students with accessibility needs or limited financial means.

Access and Affordability

The FY2021 budget proposal supports the university’s unflagging commitment to making a UM education accessible regardless of financial means.

Strengthening Socioeconomic Diversity. The budget includes continued funding for HAIL Scholarships, the Go Blue Guarantee, and Wolverine Pathways. Our financial aid commitments ensure that a UM degree is in reach for all families in the state of Michigan. The FY2021 budget recommendation includes a 5.6 percent increase in the undergraduate aid budget to ensure we can cover our aid commitments for all who qualify for the Go Blue Guarantee and other need-based aid. The budget also includes aid for nonresident families with need.

Net Price. Many students pay less than the published cost of attendance. “Net price” captures what families pay after grant aid has been applied. Our ongoing investments in the central financial aid budget over the past decade have allowed us to reduce the net price for families with need and decrease student debt at graduation.

Sticker Price. All in-state students, regardless of their aid status, qualify for a heavily discounted resident tuition rate. This makes the world-class UM experience a substantial bargain for Michigan families. 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 UM degree, and nonresident tuition rates compare favorably to private peers. Our recommended modest 1.9 percent increase aligns with this tuition philosophy.

Fiscal Discipline

The goals of this budget plan could not be attained without ongoing fiscal discipline. In a typical year, the university faces unavoidable cost increases in areas such as compliance, insurance, health care benefits and supplies. FY2021 is no exception, and these pressures are made more acute by new costs and revenue constraints related to COVID-19.

UM has long practice in mitigating these budget pressures through a focus on cost containment and a holistic approach to reducing the cost of operations so that academic excellence can be maintained. As part of the annual budget process, units across campus look at their operations each year to identify lower-priority activities, programs, and expenditures they can eliminate.

Balancing the FY2021 budget necessitates deeper cuts. In FY2021 UM will freeze salaries and will continue a hiring freeze for all but essential positions. Reduced hours and staff voluntary furloughs will yield addition savings. This is accompanied by other one-time savings such as postponing construction projects, salary reductions for top executives and eliminating expenditures in areas such as travel, professional development, and non-essential supplies.

Philanthropic giving continues to play an essential role in providing units the flexibility to shift costs off the general fund. Gift funds help cover a variety of costs, and will be especially important as UM provides safe options for engaged learning opportunities and provides aid that attracts the very best students to UM's campus.

Through these combined strategic efforts schools, colleges, and units across the campus have identified \$102 million in savings in FY2021, enabling us to meet increased costs while substantially reducing the pressure for higher tuition increases.

Finally, we wish to acknowledge the contribution of the CARES Act to the FY2021 budget. The one-time funding that is allocated for institutional use, amounting to \$12.6 million, will help the university meet a portion of its increases in costs due to COVID-19. This relieves some of the pressures on the FY2021 General Fund budget. The portion of funding allocated to students - another \$12.6 million - is being distributed directly to UM students as emergency grants.

Budgeted 2021 General Fund Revenues

Components of the General Fund. The general fund is the primary source of support for the academic mission of the university. The general fund has three main sources: Tuition, the state appropriation, 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. Amidst the uncertainty from no state appropriations decision at the time of our budget development, the university is tentatively planning on a FY2021 state appropriation of \$325.5 million, unchanged from FY2020 funding.

Tuition is, in most years, the last part of the budget to be determined. The university models expected tuition revenue based on projected enrollment and residency, and proposes the lowest tuition rate increases necessary to meet the university's priorities, preserve its excellence, and maintain fiscal stability.

Moderate Increases in Tuition. The budget recommends a lower-division, undergraduate tuition increase of \$290 a year – 1.9 percent – for in-state students. The increase for out-of-state undergraduate students would also be 1.9 percent. Tuition for most graduate programs would increase 1.9 percent. A limited number of differential increases also are recommended for specific programs (See Tuition and Fee Schedule). Our aid policies mean that most in-state undergraduates with need will experience no net increase in tuition costs.

Additionally, in FY2021 all students will be levied a \$50-per-term COVID-19 fee. Revenue from the fee will assist in covering the costs of testing and other health and safety-related services associated with the pandemic.

Summary

The budget recommendation for the Ann Arbor campus is a balanced spending plan reflecting critical stewardship in a time of fiscal uncertainty. The proposed FY2021 budget aims to provide the resources necessary to continue the academic excellence of this world-class institution while protecting health and safety and maintaining accessibility and affordability for students.

The \$2.30 billion FY2021 general fund budget, detailed in Table 1, is based on a state appropriation of \$325.5 million, \$102 million in cost containment and a recommended undergraduate tuition increase of 1.9 percent with an increase for most graduate programs of 1.9 percent.

The proposed budget gives top priority to the university's essential missions in education, research and public service by directing needed resources as much as possible to our academic units. We anticipate making further allocations to these units; at the time of this budget proposal we are holding certain operating funds centrally until we have clarity on the level of our state appropriation and the specific needs of units. We will use resources thoughtfully and strategically to protect and enhance the quality of the education and experience we deliver.

The stability of this budget reflects the hard work and dedication of faculty and staff across the university, at all levels, who have put forth extraordinary effort to ensure that UM can operate under new constraints imposed by a global pandemic. With our combined stewardship, UM can continue to deliver a quality educational experience and pursue the groundbreaking research and discovery upon which the state, nation, and world depend.